S. HRG. 101-243

THE ROLE OF STATE AND LOCAL GOVERNMENTS DEVELOPING HOUSING STRATEGIES WITH EMPHASIS ON S. 566

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND URBAN AFFAIRS

OF THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON

S. 566

TO AUTHORIZE A NEW CORPORATION TO SUPPORT STATE AND LOCAL STRATEGIES FOR ACHIEVING MORE AFFORDABLE HOUSING; TO INCREASE HOMEOWNERSHIP; AND FOR OTHER PURPOSES

THE NATIONAL AFFORDABLE HOUSING ACT

JUNE 6, 1989

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THE ROLE OF STATE AND LOCAL GOVERNMENTS IN DEVELOPING HOUSING STRATEGIES WITH EMPHASIS ON S. 566

TUESDAY, JUNE 6, 1989

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met at 10:05 a.m., room SD–562 of the Senate Dirksen Office Building, Senator Alan Cranston (chairman of the subcommittee) presiding.

Present: Senators Cranston, Graham, Kerry, D'Amato, Gramm, and Mack.

OPENING STATEMENT OF SENATOR ALAN CRANSTON

Senator CRANSTON. The committee will please come to order.

I welcome all of you this morning as we continue the Housing Subcommittee's hearings on S. 566, the National Affordable Housing Act.

I am very pleased that we are joined today by so many of the Governors and mayors who have shown national leadership in affordable housing and by two Senators who are particularly interested in what we are undertaking.

We are all troubled by the recent trends in housing. Young families increasingly find their dreams of homeownership drifting out of reach. Working families find it harder to afford suitable rental housing. The poor are increasingly threatened with homelessness.

These trends will soon worsen as housing assistance for 2 million low income families begins to expire starting next year.

Two years ago, when I assumed leadership of the Senate Housing Subcommittee, I announced my determination to shape an effective new housing policy for the country. Senator Al D'Amato and I sent out a nationwide invitation to others to join us in that task. The result is the bill we are discussing today.

Our bill will give States and local governments more flexibility in designing strategies to expand the supply of affordable housing. Housing strategies must be tailored to local conditions and local markets that differ greatly throughout the country.

Many of you have launched exciting housing initiatives in recent years, and our bill will build upon and enhance many of these efforts. The bill will also commit the Federal Government to a long-term partnership with States and local governments, nonprofit or-

ganizations, and private industry to expand the supply of affordable housing.

The bill recognizes that the vital legacy of past housing policy is not the programs that were enacted down through the years, but the institutions that were produced by past housing policy. Institutions can mature, evolve, and adapt to fast changing circumstances.

Building on that lesson, our bill establishes a strong new institution called the HOME Corporation, located within HUD, with a mission specifically to support State and local housing strategies and also with a powerful incentive to innovate. The HOME Corporation will be a one-stop agency providing States and local governments with the various forms of Federal assistance that are needed to produce affordable housing.

The HOME Corporation will provide flexible capital subsidies, credit enhancement, and technical assistance. States and localities will not be given the responsibility for housing and then be left to wrestle with three or four different Federal bureaucracies, none of which has a strong incentive to help you succeed.

The HOME Corporation will also establish long-term partnerships with States and localities by distributing capital subsidies, partly by formula and partly by incentive allocation. For each participating State and local government the HOME Corporation will create a housing investment trust fund. States and localities will be able to draw funds from their own trust fund to be used very flexibly. Any repayment of those funds would go back to your own trust fund for your reuse as investment in affordable housing.

I am well aware of the controversy between States and local governments over who should receive Federal housing assistance. Our bill provides a middle approach. Half of the funds would be distributed among the States, with each State receiving at least $3 million. The other half would be distributed among larger local governments. States would have responsibility for addressing housing needs in all areas of the State and cooperation between States and localities will be strongly encouraged.

I look forward to hearing how our witnesses assess that proposal.

I believe this legislation offers a promising framework for the strong national housing policy that our Nation will need during the next decade. The legislation is now being refined so that the full Banking Committee can act on it before the August recess. I want to make those refinements with your help, your advice and assistance.

This is an exciting time to be working for affordable housing in our country. I feel that excitement, and your presence here today suggests that you do also. We who care deeply about decent affordable housing can make a real difference in the next few months if we all work together. I am confident we will do that and that we will succeed.

I invite each of you to comment on any part of the bill that is of interest to you.

As you can see, we have a very full schedule this morning. I ask each of you who will be appearing as witnesses to summarize your testimony within 5 minutes so we will have sufficient time for questions.

It is now my pleasure to turn to the two Senators who are before us, first Frank Lautenberg, U.S. Senator from New Jersey.

Frank.

STATEMENT OF FRANK LAUTENBERG, U.S. SENATOR FROM THE STATE OF NEW JERSEY

Senator LAUTENBERG. Thank you very much, Mr. Chairman. This is what you call in the nick of time, your legislation of course, Mr. Chairman.

I am proud to be here this morning to be an original cosponsor of the legislation that you and Senator D'Amato have developed to address our Nation's housing crisis, and I thank you for this opportunity.

The lack of affordable housing in this country has long ago reached crisis proportions. As many as 3 million are homeless. Millions more live in substandard conditions. For too many Americans homeownership has become an impossible dream.

Mr. Chairman, no civilized society, no society as well-developed, as wealthy as ours should tolerate such conditions. It is a moral outrage, and action has to be taken now. We are simply too great a country to accept people living in the gutter.

No, there is not enough money, but if we could miraculously find $150 billion for a thrift bailout, surely we can find the means to help out the homeless. After all, when the S&L industry calls for help, the Federal Government antes up. When the farmers are hit by a drought, Congress doesn't hesitate.

But for the last 8 years, as millions of low income citizens cry out for affordable housing, the Government has turned its back, just as pedestrians turn aside the outstretched hands of the American who is homeless in the streets.

We have got to find answers.

Today, for a moment I would like to focus on a particularly promising approach, and that is the development of affordable housing by nonprofit housing organizations.

Mr. Chairman, as the Federal Government has withdrawn support for housing over the past decade, thousands of community based groups have emerged to fill the vacuum, from the new Community Corporation in Newark, NJ to the Community Housing Corporation in Santa Barbara, CA to the Nehemiah Project in Brooklyn. These grassroots organizations have built housing and rebuilt communities. Groups like these can do even more if we give them a chance.

That is why I recently introduced S. 1081, the Community Housing Partnership Act. This legislation provides $525 million in grants for nonprofits to develop affordable housing and for technical and training assistance.

There are many reasons to give nonprofit housing organizations an important role in national housing policy.

First, nonprofits are closely tied to their local communities. Unlike HUD's massive, distant bureaucracy, nonprofits consist largely of local people who care about their communities and who are sensitive to local needs.

Their initiatives often enjoy strong neighborhood support, and that is important because, after all, efforts to provide affordable housing are often complicated by community resistance to outside authorities and developers. Yet most or all nonprofits are of, by, and for the people of the community. As a result, their initiatives can gain both rapid local approval and the long-term commitment needed to avoid problems like vandalism.

In part because of their close community ties, nonprofits undertake projects that other developers consider too risky, too small, or unprofitable, and they can do so in a highly cost-effective manner. Nonprofits often attract contributions and social investments from the private sector that lower their cost of capital.

Additionally, much of their work is done by volunteers, by future occupants of these houses. Also, the community support they generate eliminates many of the costly local obstacles that confront other public and private developers of affordable housing.

Nonprofits are in this for the long haul. This avoids the situation we see now where thousands of units could be lost as subsidy contracts expire.

Also, nonprofit housing is often just one component of broader neighborhood revitalization efforts. Nonprofits don't just build housing. They often hire and train local youth. They improve other commercial, recreational facilities and offer other services.

In short, they help build communities. They make people's lives better.

Close community ties, sensitivity to local needs, willingness to invest in areas no one else will touch, ability to generate to community support, cost effectiveness, commitment to serving the disadvantaged, commitment to housing that is permanently affordable and comprehensive neighborhood revitalization—for all of these reasons nonprofits offer an exciting new direction for Federal housing policy.

Again, thank you, Mr. Chairman, members of the committee, for the opportunity to testify. As the legislative process moves forward, I hope we will be able to work together to shape a nonprofit housing program that will contribute to reinvigorated, comprehensive national housing policy.

Thank you.

Senator CRANSTON. Thank you very much for your very welcome and constructive testimony.

Senator Lieberman.

STATEMENT OF JOSEPH LIEBERMAN, U.S. SENATOR FROM THE STATE OF CONNECTICUT

Senator LIEBERMAN. Thank you, Mr. Chairman.

I, too, am delighted to be here and appreciate this opportunity to appear before you and Senator Mack and Senator Gramm.

I congratulate you for having put together what I think is an innovative, comprehensive, and truly productive bill, the National Affordable Housing Act, and for conducting this series of very educational hearings.

I am pleased to be a cosponsor of that act. I am delighted to have the opportunity to participate in these discussions.

Senator CRANSTON. May I say I welcome you as a cosponsor. That gets us to number 40. We are well on the way to having the majority of the Senate, and we have a very strong majority in this committee. Senator Frank Lautenberg was an original cosponsor.

Senator LIEBERMAN. I am glad to join today. It is good company.

Mr. Chairman, I have prepared testimony which I would ask be entered into the record.

Senator CRANSTON. Without objection.

Senator LIEBERMAN. In deference to the schedule and the distinguished public officials who will follow us, I will try to abbreviate my remarks.

Let me say in that regard how personally happy I am to see Governor Michael Dukakis here, my friend and neighbor, who for at least two decades since I met him in the early 1970's, when we were both working on insurance reform, has consistently been one of the most creative, thoughtful, and productive people in American government, and I am glad to see him this morning.

I want to focus this morning on one part of the housing problem, and that is the problem of homelessness. It is a stain, as Senator Lautenberg has said, on our national spirit. Americans don't want to live in a country where other Americans are living in the gutter or in cars or even in homeless shelters. Homeless shelters too often separate families and are obviously not a place in which constructive growth can occur.

The efforts of Congress and the Federal Government in the past with regard to homelessness have focused on provision of temporary shelters. Now I think it is time to move beyond that to giving some permanent answers to the problems of those who are homeless.

As you know, the estimates range as high as 3 million in this country.

The bill that I have introduced, S. 772, specifically targets the problem of homelessness and aims to create a quicker cost effective response to that problem by reinvigorating and reorganizing four existing Federal programs that provide for the rehabilitation of housing.

So the emphasis in my approach is rehabilitation. Funds would be allocated under my bill to four different programs. One would be the section 8 rehabilitation assistance. In our bill we provide for $250 million, and that would create 3,400 new housing units. The attempt here is to get private sector developers into the business of taking over housing, developing it for the homeless, and then involving the subsidy, rental subsidy, that is also part of section 8.

The bill also proposes $500 million for modernization of vacant public housing units, and that would create more than 31,000 new units for the homeless.

All too often in cities throughout America we see public housing units structurally sound, boarded up, and vacant. Those can be put right back into the housing stock to meet this immediate need.

$500 million of rental rehabilitation grants to landlords, which would add up to more than 71,000 additional units for the homeless. Here again we are trying to involve the private sector initiative. This program would be distinguished from the section 8 program in that there are no continuing rental subsidies, but we

would look for some guarantee that the homeless would spend some set period of time in that housing.

And then $300 million in aid to States and local governments for the rehabilitation of M-ren buildings, which would add up again to more than 30,000 new units. M-ren buildings are buildings that are taken over by other levels of government, particularly because of failure to pay taxes or simple abandonment. In any city in America today we see these houses being used as dens for drug dealers and drug users, and the opportunity to bring them back to life and put them to a constructive purpose I think is an exciting one.

This bill I have introduced would ask the Secretary of HUD to give special priority in filling housing units created under the bill to two categories of people that I think are especially disadvantaged when they become homeless.

One are families with a large number of children. As you know, Mr. Chairman, more and more of the homeless are children. The old notion that the homeless were single men who were out of work is wrong. It doesn't relate to reality. So this bill would say that those families with a large number of children be given special priority in the provision of homeless units.

Second, the disabled constitute a surprisingly large proportion of those who are homeless in America. Too often, units that are created for them simply are inaccessible to them because of their disabilities.

Finally, this builds on a very successful new idea that has been pioneered in the State of Connecticut. We found in Connecticut that many people who were homeless had jobs, but couldn't afford to go into housing particularly because they simply did not have the ready cash to make a security deposit. So we created a program in the State of Connecticut in which the State puts down the security deposit and allows the homeless person to pay the rent. We have placed more than 2,000 families that were previously homeless in rental housing as a result of that program.

This bill would provide a fund of $200 million to be distributed to State and local governments throughout America to provide similar security deposit assistance programs.

Mr. Chairman, I thank you for giving me this opportunity to testify. I thank you for your leadership. There is nothing that would excite me more than to see some of the provisions in S. 772, the bill that I have introduced, be incorporated into your omnibus housing legislation.

Thank you for giving me this opportunity.

Senator CRANSTON. Thank you both very, very much.

[The complete prepared statement of Senator Lieberman follows:]

PREPARED STATEMENT OF SENATOR JOSEPH I. LIEBERMAN

Senator Cranston, Senator D'Amato, members of the subcommittee, thank you for inviting me to appear before the Subcommittee on Housing and Urban Affairs. I commend you for having written an innovative, comprehensive and truly productive bill, the National Affordable Housing Act, and for conducting a very educational series of hearings. These hearings demonstrate to all of us the importance and urgency of enacting comprehensive housing legisla-

tion. I am pleased to be a cosponsor of the National Affordable Housing Act and delighted to have the opportunity to participate in the discussions on this important legislation.

In my remarks this morning I want to focus on the problem of providing permanent housing for the homeless. The battle against homelessness must be a national priority. It must be fought immediately, but as part of a comprehensive approach to the creation of sufficient affordable housing for all Americans. The National Affordable Housing Act is just such a comprehensive approach.

Earlier this year I introduced the Homelessness Prevention and Housing Rehabilitation Act of 1989. I believe the rehabilitation programs emphasized in this legislation fit well within the comprehensive approach of the National Affordable Housing Act. The rehabilitation of existing housing provides a unique opportunity to create permanent housing for those who are homeless or at risk of becoming homeless.

Estimates of the number of homeless people in the United States range from 350,000 to 3 million and estimates of the number of homeless children range from 500,000 to 750,000. The leading cause of homelessness is not mental illness or unemployment or drugs. It is the lack of affordable housing. As a nation we have begun to focus our attention and resources on providing temporary shelter for the homeless, yet we have not addressed the critical problem of ensuring that permanent housing is available for all homeless Americans. The McKinney Act attempts to ensure that all Americans will be able to find shelter if they become homeless. Now we must ensure that they can leave the shelters and find permanent housing.

Those who become homeless now spend, on the average, over 13 months in shelters. After this 13 months, some may find permanent housing, some move to other shelters, some move in with family members and some find themselves on the streets. Shelters are not homes, they are not places to raise children, they are not places to live to 13 months!

People who live in shelters often have trouble finding jobs because they do not have permanent addresses. They are often separated from family members—women in one shelter, men in another and children with relatives, in a youth shelter or in foster care. It is unacceptable to have families separated and children not attending school because they live in shelters and cannot find affordable housing. It is unacceptable to have people living on the streets, in cars and crowded into shelters.

The Federal Government must work with State and local governments to ensure that we, as a nation, are able to produce as quickly as possible permanent affordable housing for those who are homeless or at risk of becoming homeless. The best way to provide permanent housing quickly and at lower cost is through the rehabilitation and preservation of the affordable housing stock.

Around the country, in both the public and private sector, housing units stand empty and in disrepair, a wasted resource, often used by drug sellers and drug users. We must return these units to the housing stock, making them safe affordable homes not dangerous drug havens. Through rehabilitation of existing structures

alone, we can bring back over 100,000 units into the housing market in the coming year.

The legislation I have introduced would provide additional funds for four different rehabilitation programs in order to deal with the different categories of housing in need of rehabilitation. Support would be directed to section 8 rehabilitation assistance, to modernize vacant public housing units, to provide rental rehabilitation grants to landlords and to provide aid to States and localities for the rehabilitation of buildings of which they have taken possession.

The Homelessness Prevention and Housing Rehabilitation Act also attempts to target rehabilitation funds to those who are most in need and have not yet been the focus of homeless legislation. Thirty to 40 percent of the homeless are families with children. Families, especially families of five or more, have a particularly difficult time finding affordable housing. I propose to target funds to those rehabilitation projects which will create units for families of five or more.

Throughout America and in the very city in which we meet today, children with disabilities languish in hospitals because the low-income units in which their families reside are not accessible to people with disabilities. These children do not belong in the hospital. They are not sick. They belong at home with their families, but they cannot go home because the only homes their families can afford are not accessible. The legislation I have introduced places a priority on projects which make rehabilitated housing units accessible to people with disabilities.

Rehabilitation of existing structures is a practical, cost-effective way to utilize existing resources and provide affordable permanent housing for the homeless. This legislation would place a priority on rehabilitating housing for those populations most at risk of homelessness and most in need of assistance in order to ensure that they receive the safe, decent housing to which all Americans are entitled. It is not the final solution to the affordable housing problem, but I think it is one aspect of a solution.

I also believe it is important to ensure that that those who are homeless or are at risk of becoming homeless are not denied decent housing solely because they cannot afford the security deposit necessary to rent an apartment or a house. Twenty to 30 percent of homeless families are working people, many of whom could afford the monthly rent, but do not have the savings available to cover the up-front costs of renting a house or an apartment.

In my own State of Connecticut we have instituted a security deposit grant program for those who are homeless or at risk of becoming homeless. The program has been very successful. In 1988 the State provided security deposit grants to over 1,000 families and individuals, enabling these people to escape or avoid shelters and move into permanent housing. I propose that the Federal Government provide for such a program on a nationwide basis. While rehabilitation and new construction are underway, a security deposit assistance program could be placing people immediately in permanent housing.

I appreciate the opportunity to discuss housing rehabilitation programs and the security deposit grant assistance program with

the subcommittee. I will, of course, be happy to try to answer any questions you may have.

Senator CRANSTON. Our draft legislation does emphasize the positive role of the nonprofits as providers of affordable housing. It also includes provisions to strengthen our response to the homeless. Our staff will be working with your staff to see to it that we can, as best as possible, find ways to incorporate what you are proposing in your legislation in the Cranston-D'Amato bill to our mutual benefit and to the benefits mostly of those who need help for housing.

I thank you very much.

Let me ask first—I don't have any questions. Do either of you have an opening statement or any questions?

STATEMENT OF SENATOR JIM SASSER

Senator SASSER. Mr. Chairman, I would like to welcome the distinguished witnesses who are here to testify today on the State and local role in housing. Indeed, I'm pleased that your important bill is being given such timely and careful attention.

The relationship between State and local governments and Federal housing programs is of particular interest to me. The National Affordable Housing Act builds on this relationship, making significant strides toward strengthening the partnership. The HOME Corporation—the centerpiece of your bill—will streamline access to HUD for public and private partnerships.

In my home State of Tennessee, the city of Chattanooga is testament to what public and private partnerships can accomplish. The Chattanooga neighborhood enterprise has undertaken the gargantuan task of making every low-income housing unit in the city fit and habitable in 10 years. This involves the rehabilitation and construction of 14,000 homes—the first time that any city in the Nation has adopted such a goal.

I'm glad that the National Affordable Housing Act would provide for more public/private programs like Chattanooga's. I think this is an innovative and exciting approach. It helps rally a city behind an important social project because the citizens are directly involved. It creates jobs and makes the city a more attractive place for business. It approves the morale of a community by helping to provide all with a safe and sound home.

Mr. Chairman, I look forward to today's testimony.

Senator CRANSTON. Thank you very much.

We now have our first panel, two Governors, Michael Dukakis, the Governor of Massachusetts, Edward DiPrete, the Governor of Rhode Island.

Would you both please come forward?

We are delighted to have you both here. You both have been very strong advocates of sound housing programs. We are delighted to have one Republican and one Democratic Governor appearing together here in a partnership similar to that Senator Al D'Amato and I have had on this committee.

Mike, I do understand you are a Democrat, right? [Laughter.]

Governor DUKAKIS. Next to a very enlightened and progressive Republican.

Senator CRANSTON. If you would proceed, please.

STATEMENT OF MICHAEL DUKAKIS, GOVERNOR OF THE STATE OF MASSACHUSETTS

Governor DUKAKIS. Mr. Chairman, Senators Gramm, Mack, and Kerry, my name is Michael Dukakis. I am the Governor of the Commonwealth of Massachusetts.

I am particularly pleased to join you in what Senator Cranston has called the best opportunity we have had since the 1940's to shape a fresh and effective national housing policy.

The last 8 years have been a housing disaster for this Nation. Thousands of our fellow citizens are living in streets and doorways, but this is by no means of the homeless alone. We have millions of young families who continue to be denied the opportunity to buy and own a home.

This Nation can do better than that. We must do better than that.

The National Affordable Housing Act is a good place to begin. It has all the pieces we need to address the housing needs of this country. It reaches out to the States and local communities. It recognizes that there is a strong and eager network of people, both public and private and nonprofit, in the housing community ready and anxious to work with you and the new administration.

Let me emphasize just three points this morning.

First, the States want to work with you. We have already developed some very creative initiatives to help meet the housing needs of our citizens.

In the Northeast, for example, virtually every State has some publicly assisted housing, and we are not alone. The Governors in Washington, Tennessee, Minnesota, Virginia, and Florida bear witness to that fact. And we couldn't be doing what we are doing without the active involvement of community, business, and labor leaders, who are working with us.

The value that can be created with these State/local partnerships is enormous, and it goes well beyond the State dollars we invest. In our Home Ownership Program in Massachusetts, for example, we are getting 3½ times in local contributions what we put in directly.

That is why it is important that the matching requirement contained in the bill be flexible enough to take into account a variety of contributions. For example, communities can create tremendous value by allowing developers to build at increased densities in exchange for providing affordable housing. Such actions where they create real value, Mr. Chairman, should be supported and included in any match requirement. If that is done, I believe we can meet the 25 percent match requirement proposed in the new bill.

Moreover, I would encourage you to consider distributing a larger share of funds on a performance basis. While we all understand the value of a predictable formula distribution system, I also believe that we should be encouraging and rewarding State/local cooperation. If a formula is to be used, let's make sure it recognizes such efforts.

Second, I would strongly urge you to give us as much flexibility as possible. My State's housing needs are not the same as Kentucky's or Texas' or Colorado's. Theirs may not be ours. In some

States the rehabilitation of existing or abandoned buildings may be the priority. In my State where we have few abandoned buildings, although we have invested millions and millions of State dollars successfully in the rehabilitation and restoration of those abandoned buildings, it is production we need now at affordable prices.

As presently drafted, the Housing Opportunity Program gives us a good deal of needed flexibility, and it is important that we keep that in the bill.

Third, while giving us the flexibility we need, hold us accountable. Make sure we are meeting the needs of low income families as well as the elderly. Encourage us to develop housing for low income families in mixed income developments. Believe me, it works. I know. It has been working in my State for 20 years, without the terrible social problems that massive blocks of exclusively low income housing have brought with them.

Make sure that we are providing you with a solid and well thought out State housing strategy and give us the authority to make sure that our local communities are doing the same thing.

You are doing a great job so far. I am sorry I am not living in public housing on Pennsylvania Ave. to work with you even a little more closely. [Laughter.]

But I am confident that working together we can finally achieve the goal of the National Housing Act of 1949, a decent home and a suitable living environment for every American family.

As all of you know, Governor DiPrete has chaired the NGA standing committee which deals with housing legislation. He has done a terrific job, and I am very pleased and honored to join him on this panel this morning.

Thank you very much, Mr. Chairman.

Senator CRANSTON. Thank you very much, Mike, for your very helpful testimony and for your directness and for your succinctness. I do have quite a few questions I would like to ask you.

Governor DiPrete, we are delighted to have you, also.

STATEMENT OF EDWARD D. DiPRETE, GOVERNOR OF THE STATE OF RHODE ISLAND

Governor DiPRETE. Thank you very much, Mr. Chairman, members of the committee.

I appreciate the opportunity to come before you today on behalf of the National Governors' Association to discuss the National Affordable Housing Act of 1989.

As chairman of the NGA's Committee on Economic Development and Technological Innovation, I have the responsibility for the development and adoption of a comprehensive affordable housing policy, and working closely with my friend and neighbor, Governor Dukakis, and the other 26 Governors that make up that particular committee, I was successful in getting the policy adopted by a unanimous, bipartisan vote of all the Governors last August in full plenary session.

Senator Cranston, both you and Senator D'Amato and the other members of the committee are to be commended for your leadership role on this crucial, but I know very complex policy area. The 2-year effort that you have undertaken has resulted in a broad coa-

lition of industry associations, public interest groups, tenant organizations, and State and local government associations, all of whom participated in the studies, meetings, and discussions that led up to this bill, and on behalf of the Nation's Governors, I just want to thank you for all of that kind of leadership.

Let me say, also, that I met with Secretary Kemp on February 22, 1989, to discuss the Governors' strong commitment to the need for more affordable housing and the need for a partnership to deal with this complex, critical, and expensive issue. We also spoke of the critical problem of homelessness and that affordable housing was the only permanent solution.

Secretary Kemp pledged a goal of a million housing starts annually and recognized the need that a large proportion of the housing must be available for low and moderate income families.

Now, if I may, I would like to speak to the major provisions of the National Affordable Housing Act.

First, the national housing policy must recognize that the provision of decent and affordable housing remains a partnership.

No State/Federal partnership can exist without continuing the tax incentives for the private sector participation, especially the mortgage revenue program and low income housing tax credits. They are the key to almost every strategy States use to promote affordable housing, and I applaud you for including these provisions.

S. 565 also promotes Federal, State, and local cooperation. We recommend that further incentives be included, such as minimum requirements that State and local housing and homeownership plans be shared at the State level or that local plans be required at least to be consistent with State plans.

Second, expanding homeownership opportunities.

The Governors are on record in support of extending the mortgage revenue bond program, adjusting Farmers Home Administration standards to permit greater use of this program in higher cost housing markets around the country, and providing a mechanism for a time linked investment program such as the 401(k) plans and IRA's to be used for downpayments.

Third, providing reasonable levels of rental assistance to low income households.

The rental credits proposed in S. 565 I think are a creative approach designed to take advantage of the best features of both the section 8 certificates and vouchers. We endorse them as a viable continuation of the Federal responsibility for low income rental assistance.

We commend you for this idea and believe it meets the concerns of the Governors in providing adequate, flexible, and accessible rental support.

S. 565 is consistent with NGA policy providing protection for low income households that are currently forced to spend an extraordinary proportion of income on rent. The targets in the bill provide that protection.

Fourth, preserve the existing stock of affordable housing.

A major concern of NGA is the expiring use restrictions in Federal contracts on assisted rental units. Between now and 1993, more than 800,000 tenant and unit based rental subsidy contracts

will end along with the subsidies for 100,000 units of older HUD assisted housing stock. A substantial investment is needed to preserve or replace these units, and S. 565 must provide the funds for that purpose.

There is no question that the housing opportunity program will give all States and localities more options to protect this housing stock and that the HOME Corporation will be an additive for creative solutions.

There are a mixture of innovative proposals in the bill, but its success will be judged initially on how well it addresses this problem.

Fifth, create a national housing partnership.

As I stated earlier, the key to success is partnership. Many States and localities have taken significant steps to increase the amount and supply of affordable housing. The Government National HOME Corporation will provide both a focus for efforts to expand affordable housing and a single point of contact for States and localities.

Sixth, finally, I would like to go on record as supporting full funding for the McKinney Homeless Assistance Program as well as calling for a more equitable allocation formula for homeless moneys between State and local governments.

In conclusion, Mr. Chairman, members of the committee, the Nation's Governors believe that States have a greater role to play in housing. We are prepared to take on those responsibilities. Governors are willing to discuss approaches that would bring Federal housing programs into the mainstream of State and local policies and further enhance the States' ability to address today's housing problems.

Again, I thank you, Mr. Chairman and members of this committee, for this opportunity on behalf of the National Governors' Association. I applaud you for an innovative and comprehensive proposal on a most critical public policy issue.

Thank you.

[The complete prepared statement of Gov. Edward D. DiPrete follows:]

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Statement of

THE HONORABLE EDWARD D. DIPRETE
GOVERNOR OF RHODE ISLAND

CHAIRMAN
NGA COMMITTEE ON
ECONOMIC DEVELOPMENT AND TECHNOLOGICAL INNOVATION

before the

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

UNITED STATES SENATE

on

S. 565-6: NATIONAL AFFORDABLE HOUSING ACT

June 6, 1989

Mr. Chairman and Members of the Committee.

I appreciate the opportunity to come before you today on behalf of the National Governors' Association to discuss the National Affordable Housing Act of 1989.

For the past two years I have served as chairman of NGA's Committee on Economic Development and Technological Innovation. Through the work of the Committee including Governor Dukakis, my predecessor as chairman, a comprehensive policy on affordable housing was adopted by the National Governors' Association by an unanimous vote in August 1988.

Both you and Senator D'Amato are to be commended for your leadership on this crucial but complex policy area. The two-year effort that you have undertaken has resulted in a broad coalition of industry associations, public interest groups, tenant organizations, and state and local government associations, all of whom participated in the studies, meetings, and discussions that led to this bill. On behalf of the nations' Governors, I want to publicly thank both of you for that leadership.

It is encouraging to me that this committee has recognized the growing role that states have played in the housing arena. During this past decade, states have initiated a number of affordable housing programs in response both to a reduction in federal support for housing and an increase in housing costs across the country. Let me list a few programs the nation's Governors have established in the past few years.

- In Virginia, Governor Gerald Baliles has established the Urban Neighborhood Partnership Initiative and a unique Rural Homesteading Program. He has added $45 million in general funds to the $45 million provided by the Virginia State Housing Finance Agency for affordable housing.

- In New Jersey, Governor Thomas Kean has been a leader in using the low-income housing tax credit and mortgage revenue bonds to increase the leverage of $35 million in state funds dedicated to New Jersey's major affordable housing programs.

- In Tennessee, Governor Ned McWherter proposed and had enacted a mortgage recording fee increase and a real estate transfer fee increase to provide money for the Housing Opportunities Using State Encouragement Program (HOUSE). The increase in fees is expected to provide this program with $10 million - $12 million annually for grants to local governments and nonprofit organizations for affordable housing projects.

- In Mississippi, Governor Ray Mabus established an affordable housing task force in 1988 that recommended major changes in state housing programs. The Governor was successful in getting those proposals adopted in legislation this year. The Mississippi Home Corporation will begin operating this September, and Governor Mabus hopes to be able to fund its revolving loan fund at $2 million per year.

I have previously shared with you the steps I have taken in my own state of Rhode Island, and if you have any questions, I'd be glad to describe them further. Our efforts include a first time homebuyers program financed by mortgage revenue bonds; a rental subsidy program; and efforts to preserve existing low-income housing, which is threatened by prepayments and expiring use restrictions.

Many states are already dedicating millions of dollars of state revenues to increase the supply of affordable housing for low-income homeowners and renters. This brief list makes the point that the states are able and willing to play a role in increasing the production of affordable housing. We all know the problems:

- The supply of affordable housing in most markets is not adequate to meet the demand.

- Rental costs have increased steadily in the last decade, while the percentage of those owning their own homes has fallen for the first time since the end of World War II.

- The growing number of homeless Americans has indicated the urgency of dealing with critical housing problems, and not just on a short-term basis.

The NGA policy recommends that overall national housing goals be developed and that priorities be set for each level of government in meeting these goals.

Overall National Housing Priorities

- Governors believe that one of our highest priorities as a society is to ensure that low-income Americans are housed in adequate shelter.

- The Governors are concerned about the increasing incidence of homelessness and they want to develop effective strategies to address this problem. Permanent housing for the homeless is a primary goal.

Priorities for the Federal Government

- The federal government has a basic responsibility to ensure that shelter is provided to low-income individuals and families. This includes preserving the existing public housing stock for low-income individuals, and providing rental assistance to subsidize access to standard housing.

- Federal mortgage programs and federally authorized bond programs should provide essential help to low- and moderate-income first-time home buyers.

- The federal government, in cooperation with state and local efforts, must assume the financial leadership role in providing permanent housing for the homeless.

- The federal government should establish an effective program or office -- such as the Home Corporation -- to help states coordinate and consolidate existing federal and state programs into even more effective programs.

- The Governors support the housing opportunity program. While we would like to see the program funded at $5 billion annually, we realize that progress must first be made in reducing the federal deficit. The Governors housing policy does support $2.8 billion in new funds for federal housing responsibilities in FY 1990, including the continuation of the mortgage revenue bond program and the low-income housing tax credit. That demonstrates the priority we place on affordable housing.

Priorities for State Governments

- States are increasingly demonstrating that affordable housing is becoming an important state concern. The trend shows state interest is expected to grow.

- State capacity to help increase the supply of affordable housing is critically dependent upon the continuation of mechanisms such as mortgage revenue bonds, general obligation bonds, mortgage insurance programs, tax credits for low-income housing, and community development block grants. We urge continuation of these programs as a part of reconciliation for the FY 1990 budget.

- States should be responsible for developing a state plan to identify populations in need, and this should be done in cooperation with local governments; for allocating federal housing funds to provide and promote affordable housing; for promoting the development of projects that use available federal housing incentives most efficiently; and for fostering an effective partnership with local governments to best utilize the limited public and private funds available.

- States will provide a match for the federal funds flowing to the state.

Principles Governing Federal-State Roles in Housing Legislation

Both federal tax incentives and direct expenditures are needed. Integrating these under one common housing policy is timely and essential. Because resources are limited it is essential that tax and direct expenditure programs work smoothly together.

The federal government must recognize its ongoing responsibility to provide rental assistance and to preserve the federal assisted low-income housing inventory. For this reason, NGA supports the rental credits program. This program is an appropriate continuation of federal responsibility for rent subsidies and the preservation of affordable housing. Even so, states should be allowed to use housing opportunity program funds for preservation-related efforts if called for in the state's housing strategy.

Federal secondary market support for mortgages continues to be essential to a comprehensive housing program. The facilities provided through the Federal National Mortgage Association (Fannie Mae) and the Government National Mortgage Association (Ginnie Mae) should be continued. The change in mortgage ceilings, the greater flexibility in downpayment requirements and the authority to insure adjustable rate mortgages are each needed to insure equal access to the program across

the country. The Home Corporation involvement in credit enhancement can augment FHA accessibility.

The successful coordination and combination of a range of programs underscores the value of encouraging states to take a lead role in developing comprehensive and flexible strategies to address housing problems and needs. In the best tradition of the American federal system, some of the most innovative housing programs in recent years have been created in the state "laboratories." The new resources and opportunities for leadership under the housing opportunity program will likely generate greater energy and innovation -- because of the states' capacity to forge state-local-private-nonprofit partnerships. Careful coordination by states in the design of strategies to meet the whole range of housing needs should not be regarded as an insignificant administrative detail, but rather as a prerequisite for fulfilling the potential of this ambitious new national housing program.

The federal government, in cooperation with state and local efforts, must assume the leadership role in addressing the problem of permanent housing for the homeless. NGA strongly supports full funding of the Stewart B. McKinney Homeless Assistance Act, and recognizes that until stronger programs to promote affordable housing are in place, no permanent solution to homelessness will be found.

Now let me speak to the major provisions of the National Affordable Housing Act.

1. National housing policy must recognize that the provision of decent and affordable housing requires a partnership.

   S. 565 strongly endorses public-private partnerships by continuing the tax incentives for private sector participation. The extension of these tax incentives is critical to states being able to play a major role in the promotion of affordable housing. I applaud you

for including these provisions, and I will be working with the Treasury Department and the tax-writing committees of Congress to support them.

We are concerned, however, that stronger targeting of incentives such as mortgage revenue bonds and the low-income housing tax credit may lessen their effectiveness in bringing private developers into the production of affordable housing. We look forward to working with the committee to clarify the impact of these targeting restrictions on future affordable housing projects; and are pleased the S. 565 contains current law provisions.

S. 565 also promotes federal, state, and local cooperation. We recommend that further incentives be included, such as a minimum requirement that state and local housing and homelessness plans be shared at a state level. A long history of direct federal-local programs in the housing arena without notification at the state level has resulted in a failure to fully maximize available funds. As Governors, we ask for a role in allocating funds to local governments as a means of better integrating programs into an effective state plan.

2. Expanding homeownership opportunities.

The Governors are on record in support of extending the mortgage revenue bond program, adjusting Farmers Home Administration standards to permit greater use of this program in higher cost housing markets around the country, and providing a mechanism for retirement investment programs (such as 401(k) plans and individual retirement accounts) to be utilized for downpayments. We congratulate you on including these in S. 565. We also endorse provisions in the bill to extend FHA coverage to adjustable rate mortgages that have become essential to more and more of our citizens seeking to buy a home.

3. Providing reasonable levels of rental assistance to low-income households.

The rental credits proposed in S. 565 are a creative approach designed to take advantage of the best features of both the Section 8 certificates and vouchers. We endorse them as a viable continuation of the federal responsibility for low-income rental assistance. We commend you for this idea and believe it meets the concerns of the Governors in providing adequate, flexible and accessible rental support. The program calls for federal distribution of the rental credits to local public housing authorities. It may be important to provide some linkages to state plans and programs to insure the most efficient use of all federal incentives.

S. 565 is consistent with NGA policy in providing protections for low-income households that currently are forced to spend an extraordinary portion of income on rent. The targets in the bill provide the needed protections.

4. Preserve the existing stock of affordable housing.

A major concern of NGA is the expiring use restrictions and federal contracts on assisted rental housing. Between now and 1993, more than 800,000 tenant and unit-based rental subsidy contracts will expire or be subject to termination, along with the rental subsidies attached to more than 100,000 units of older HUD-assisted housing stock. A substantial investment is needed to preserve or replace these units, and S. 565 must provide the funds for that purpose. There are a mixture of innovative programs and proposals in the bill, but its success will be judged initially on how well it addresses this problem. There is no question that the partnerships your legislation promotes will give all states and localities more options to protect this housing stock.

5. Create a national housing partnership.

This is the centerpiece of S. 565 and again on behalf of the Governors, I commend you for developing such an innovative and responsive proposal. As I described earlier, many states and localities have taken significant steps to increase the supply of affordable housing. The Government National Home Corporation will provide both a focus for efforts to expand affordable housing and a single point of contact for states and localities. It promises to do more for intergovernmental cooperation than anything else in the last fifteen years of housing programs.

The Housing Opportunity Partnership Program will provide the funds needed to carry out the sweeping range of affordable housing programs that have been designed in cities and states throughout the country. The National Governors' Association supports the requirement for a match, but we ask that the formula take into account housing need, per capita income, and available resources. It would be a shame if this program were not adopted in the neediest parts of the country because they could not finance the match.

The Governors support the need for a state plan that can help ensure that there is full public-private partnership and that there is consistency in housing programs throughout the state. We also support the goal of targeting projects to very low-income and low-income individuals and families. However, it is difficult to interest developers in providing this housing. Where no low-income housing will be built without waivers of some of these targeting proposals, we ask that the secretary be given some discretion.

S. 565 contains language providing the secretary of HUD with the authority to approve or disapprove any state's plan, and doesn't clarify any limitations on that discretionary authority. State housing plans are often the result of significant political compromise and cooperation, and the result of public hearings.

Unless the secretary's authority is limited to the explicit provisions of the bill, states will have no reliable guidance on what constitutes an acceptable plan.

6. Programs for the Homeless

Finally I would like to raise several concerns with the McKinney Homeless Assistance programs included in S. 565. Governor Michael Dukakis chairs an NGA task force on this topic, and I thank him for the work he has done. NGA's strongest reservation has to do with the funding allocation of the homeless monies. Nowhere else in the bill is such a strong preference shown for local governments. We believe that it is inappropriate here as well, and that states should be full partners in the homeless programs for the following reasons:

A. While 70 percent of the allocated funds will flow to local governments, only a small number of formula cities will receive this direct funding. This will leave states with the responsibility of supporting a large share of homeless programs with only 30 percent of the funds. Homelessness is not just a problem of major urban areas. Its incidence is spread in response to a number of factors, including original residence, transportation systems, cost of living, weather, and facilities for shelter.

B. States have a good track record in the development and establishment of programs either independently or in conjunction with local governments. Since many of the necessary supportive services are administered by states, they need to play a role in program design and development as well as oversight.

C. Currently, states have an integral role as central information and referral points. More than thirty states have established state coordinators for the McKinney Act. Twenty-five states

have developed interagency councils to address the homeless issue.

There is a need for the centralization and coordination of services for the McKinney Act on the state level. The act is aimed not only at programs for housing but also programs for education, job training, and other support services. These programs will all be utilized more effectively and efficiently through state interagency coordination and planning, and this coordination itself will be strengthened through federal recognition of the value of this effort.

The allocation of funds for the homeless also contains a proposal that 20 percent of the funds be set aside for demonstration programs to be administered by HUD. States could utilize these funds more efficiently for the same demonstration purposes, reviewing more proposals and with a better grasp of their potential within any given community. I ask that you consider amendments to provide a state role in this demonstration program.

We are also concerned that the new formula grant program still retains many of the restrictions on use of the homeless funds currently contained in the McKinney Act. Current proscriptive requirements on size of facilities, length of stay, for example, have hampered state and local efforts. Some creative and promising options are foreclosed by the language in this bill, and we ask that you amend those provisions.

In conclusion, Mr. Chairman, the nation's Governors believe that states have a greater role to play in housing and they are prepared for the responsibilities.

It is important for the federal government in this effort to support cooperation among all parties to provide affordable housing. Bypassing state government and disregarding their financial, legal, and administrative contributions is not an approach that encourages state

financial participation to any substantial degree. It is an approach that has been largely abandoned in other federal aid programs.

Governors are willing to discuss approaches that would bring federal housing programs into the mainstream of state and local policies and further enhance the states' ability to address today's housing problems.

States have a greater capacity to administer housing programs than ever before, and are involved in a wide range of activities from home ownership to homeless intervention. Housing programs are managed through state housing finance agencies, as well as through departments of community affairs. The ability of states to develop comprehensive approaches, coupled with the advantage of proximity to state residents, puts the states in the best position to manage affordable housing programs.

Again I thank you for this opportunity. On behalf of the National Governors' Association, I applaud you for an inventive and comprehensive proposal on a critical public policy issue.

I would be glad to respond to your questions.

Senator CRANSTON. Thank you very much, Governor. We are deeply grateful for your support and your very helpful testimony.

Senator Kerry, since you have a distinguished constituent here and also since I know you have to be in Foreign Relations, as I do myself, I will let you go first.

Senator KERRY. Thank you very much, Mr. Chairman. I want to once again congratulate you for the series of hearings that you have structured here. I think they are most important and it was your leadership that helped us to get the first free-standing housing bill that we have had in about 7 years.

It is my hope, as the Governors have said and the Senators have said, that we are finally going to this year reverse the disastrous process of disinvestment that has taken place over these last years in this sector.

Needless to say, I am delighted to welcome both Governors from New England, but particularly, if you will forgive me, Governor DiPrete, my Governor, with whom I had the privilege of serving as Lieutenant Governor, and if I might say, I think all the Governors have risen magnificently to the challenge that was unfairly placed on the States in order to make up for that process of disinvestment that has taken place.

I am chauvinistic enough to believe that nowhere has it happened better than in Massachusetts under your leadership, Governor Dukakis, and I would like to single out—I know our Secretary of Communities and Development, Amy Anthony, is here in the audience. She has done a superb job, being creative in implementing the directives which you have made.

I would like to just ask, Governor, if you would perhaps flesh out for a little bit this notion of the flexibility versus the accountability and perhaps help us to understand how that can be best achieved through this legislation so that there is adequate capacity for each of the States to move. We at the same time will have the accountability, and perhaps you can give us a sense of what your experience is.

Governor DUKAKIS. It is a fine line, John. Thank you for the kind words. You have done a terrific job, and you have been a tremendous asset as well.

It is a fine line. I would only urge that you recognize that States these days do some things well, and in this particular area, given the retreat at the Federal level on the housing front, we have had to pick it up.

As you know, in our State it has been traditional and really quite bipartisan. In most States there has not been a strong State role for housing.

And perhaps try to develop the same kind of balance between flexibility and accountability that we try to in our relationship with our local communities. We couldn't do anything, as you know, if we didn't have our cities and towns and units of local Government actively involved in this.

We have tried to give them through the Massachusetts Housing Partnership a lot of flexibility, but it is Amy's responsibility to make sure they spend the money wisely and well. Yet we don't dictate to them what they do and how they do it and where they go in such detail that they are put in a straitjacket.

I think the best thing to do—and the bill does it—is to require the States to come up with a housing strategy which meets certain needs and which is reviewed by HUD, and I think we can build a good relationship with the Secretary and the Department, which will make it possible for us to pass muster.

At the same time, I think you have got to give us some responsibility for holding our local governments accountable as well. But I think the notion of partnership is a sound one.

Incidentally, John, let me also say, while I didn't mention it in my testimony, your own proposal for helping younger families and first-time home buyers to make that downpayment through tax-free accounts reflects in many ways many of the things that I was saying of course in the Presidential campaign, and I commend you for it.

But I think we can build the kind of relationship in which you, through HUD, do hold us accountable and yet don't tie us up in knots to the point where we are spending too much of our time filling out forms and dotting all the i's.

Senator KERRY. Is there a single most important ingredient that we have learned over the years through what some have pointed to as the excesses of section 8 or through the lessons of 236, 212, and so forth? Is there something that just leaps out?

Governor DUKAKIS. I would say two things. I am sure Governor DiPrete can comment on this.

The first thing, it was in retrospect—and hindsight is always 20/20—a serious mistake for us to build massive blocks of low-income housing. Clearly, doing that did not make sense and has created all kinds of serious problems as a result that we are now trying to cope with.

So our experience, at least in our State, which now stretches back over 20 years, of building mixed income developments in which you have low income, moderate income, and market rate units, with people all living together and living in harmony together, is one that I commend to you because I think that is the way you provide decent affordable housing for low income families without ghettoizing them and creating the kinds of very, very serious social conditions that we are now seeing in these communities, in these projects that came out in the 1940's and 1950's.

The second thing that I would say to you is that this notion of partnership is real. You have a vast housing community out there. It includes bankers, developers, nonprofit organizations, building trade unions, which, as you know, John, are playing increasingly important roles in our State, not only in building but financing housing, and the State and local governments as well.

Given the success of so many of these efforts at the local level, whatever we do legislatively nationally it seems to me ought to be designed to reinforce and support that notion of partnership. I will give you just one quick example without going on at great length.

Barnstable, MA, the heart of Cape Cod, a very high priced housing market, as all of us know. Yet down there the other day Amy and I cut the ribbon on a 43-unit affordable housing development, all single houses, lovely small Capes, two bedrooms, with an unfinished upstairs that can be turned into two more bedrooms for

young families, at prices ranging from $63,000 to $105,000, which in our market is dramatically lower than ordinary sales prices.

How was it done?

In this particular case, a combination of an enlightened community providing the developers with 43 units, not 10 which the zoning would have allowed, and a State government providing a portion of those mortgages at 5 percent or 5.5 percent interest thanks to a mortgage writedown program that we have with the State Housing Finance Agency with State subsidies.

It is that kind of thing that is making things work, and it is one of the reasons why the more flexibility you can give us within an accountable framework, the more I think we will be able to do our job.

Now, in another State a thousand miles away it may be abandonment that is the problem in inner cities. In that case they are going to have to do it some other way.

But there is enough experience now out there in States and communities across the country that we can work together and work together constructively.

Senator KERRY. This is not the subject of today's hearing. In fact, we are going to be dedicating a hearing in July, I think, to this subject, but while you are both here I would like to have you comment on it because it is a matter of such urgency, and that is the question of drugs within public housing units.

Secretary Kemp has indicated some sort of approach to it, and there is clearly going to have to be some addressing of that issue. I wonder if you both—and, Governor DiPrete, if in answering you would also want to comment on the other former one, I would appreciate it—would you both want to share a thought with us about how we should think about that at this point in conjunction with this bill?

Governor DIPRETE. I think the Secretary has taken a wise step in putting heavy emphasis on enforcement of drug laws in public housing projects. But we should not believe that the problem only stops there. It is a national problem. The drug epidemic problem obviously transcends income groups, ethnic backgrounds, all kinds of demographics. It is probably our biggest social problem right now.

In the Rhode Island area, it has ancillary problems. There is a constitutional amendment that was adopted by the voters in a recent election that allowed judges to hold without bail people charged with any kind of drug violation. And we are told by attorneys that ordinarily people who would have been released on personal recognizance are now being held at the prison awaiting trial.

This is one of the reasons, incidentally, Senator, one of the biggest reasons for the escalating prison population, which is siphoning off millions of dollars that could be otherwise allocated to other human service programs.

The fastest growing department in my State's budget is the department of corrections, not because we want it that way, but because the last 3 or 4 months we are seeing something like a 35-percent increase in the prison population, mostly attributable to the people who are brought there on drug violations.

So whether it is in the housing projects in the relatively poor, low-income parts of the various cities, or in the suburbs, there is strict enforcement going on, but I have said repeatedly there are not enough policemen, there are not enough members of the military and whoever else, attorneys general.

We have to get at the drug epidemic through education at the earliest possible level, to reduce the demand on drugs, in order to reduce the supply.

As far as addressing a couple of the other points, several of the words you heard here this morning—and I would reiterate and reaffirm them—are "accountability" and "flexibility." Governors around the country have repeatedly indicated their willingness to accept more and more responsibility in the solving of the affordable housing problem.

Give us the tools to do it. Hold us accountable. Give us the means, and we will do the job.

There are strong partnerships out there right now. The State governments, the housing agencies, the nonprofits, local governments. Up until recently, the key missing player has been the Federal Government, and I welcome the reentry into solving the housing problem, I welcome the reentry of the Federal Government.

And I applaud this committee for advocating this legislation. I think the sooner we see it adopted, the better off we will be, and we will be on our way to solving certainly one of the biggest social problems of our time, a problem that, with all the assets that this country has, really should probably have been solved several years ago.

Governor DUKAKIS. John, I think we have got to be tough with people who are dealing drugs everywhere, especially in public housing projects, where the problem is very severe, but where, as Governor DiPrete points out, it is by no means exclusively located.

We know, from our own studies in Massachusetts, in our most affluent suburbs, the use of drugs among young people is even greater than among young people in the inner city. Why? They have got money.

I do not think we can tolerate people who are dealing drugs in public housing projects. As you know from our meeting last Friday, we are going to be spending some money this summer, through Amy's office, to begin to reclaim some of these urban neighborhoods beyond just the immediate location of the project itself.

Ultimately, however, the concentration of three, four, six hundred, to a thousand families, all low-income, in one place is a mistake. It was a mistake, it is a mistake. We should never do it again.

One of the things, again as you know, that we are now doing is breaking up some of those public housing concentrations, mixing those developments, bringing in the private sector; and yet, at the same time, making sure that a substantial supply of decent, affordable housing is available for low- and moderate-income families.

Ultimately, I think that is the way you are going to get some mix and some stability into these projects. But in the meantime, I do not see how we can tolerate drug dealers anywhere, particularly dealers who are using public housing as the base of their location of their operation.

Senator KERRY. Mr. Chairman, I understand that I have gone over my time, and I do not want to abuse that. I want to thank you for your thoughtfulness in helping me to get back and forth to committees.

Governors, thank you very much, both of you, for your contribution.

Senator CRANSTON. Thank you very much, John.

The subcommittee's review of Federal housing policy developed a very strong consensus that the Federal Government has to take the lead, and it has to be done in partnership with the local governments. I appreciate your statements of support for that approach.

I would like to draw you out a little bit on that. What strikes you as most promising in the bill on that aspect of it? Are there any weaknesses that we should strengthen? Either one of you can respond.

Governor DIPRETE. I think the bill does recognize, Senator, that there is a joint responsibility. I know there are certain competitive pressures, probably, from different branches and different levels of government, the State's role and the local role.

Let me say, I was the mayor of a city, Rhode Island's third-largest city, for 6 years. I have been Governor for about 4½ years. Rarely did people come to me as mayor of the city and ask me to address specific housing problems. It happened occasionally, but not en masse.

As Governor, people are coming to the State house in Rhode Island, asking that the State take the lead role in addressing housing problems around Rhode Island. They rarely go to the local government. I have been at both levels of government, and I think the approach that this committee seems to be on, as to a shared responsibility of State government and local government, is a reasonable one.

Senator CRANSTON. You agree with that, I presume?

Governor DUKAKIS. I do, Senator. I would just say two things. First, I think the notion of focusing this in something like the HOME Corporation is very sound. If we can stick with that for a while, so that we all begin to build good relationships and a certain consistency in the way we do things, I think we are going to see some very real results.

The question of how you balance local and State is an interesting one. One of the best mayors in the country is here, and he may tell you that the cities ought to get more than the States. He said to me over his shoulder, "Well, maybe except for those States that are doing a terrific job like Massachusetts," so I thank Mayor Riley for saying that.

But all kidding aside, unless you give a lot of responsibility to the States—because we are in a position to do far more, I think, with those funds, working closely and cooperatively with our local communities—if we are cut out, I think you are losing a real asset.

How you split it, and the kind of direct relationship the Federal Government has with some of the largest cities is always an issue you have got to deal with. I hope these days that the Governors and States have demonstrated that we are willing to take on this responsibility and work cooperatively with our local communities and with all of you.

I think this is one of those things where, if people of good will want to make it work, we will make it work.

Senator CRANSTON. As to what the Federal Government can do, are following the two most important things: (A) giving responsibility to the States and localities; and (B) furnishing significant funds? Is there anything else that matches those two aspects of what we might do.

Governor DUKAKIS. Helping us to do it and do it well, looking at the most creative ideas, the most successful solutions that have developed both at the State and local level, bringing in the States and local communities, encouraging, supporting, advising.

Governor DIPRETE. If I can jump in, Mike, I think also recognizing where progress has been made, recognizing the innovative program, recognizing results, and perhaps to devise some part of the formula or factor into the formula to reward those States that are effective at solving housing problems.

Also, to take into account areas of States, or States around the country, that perhaps do not have the financial resources. And if there is any kind of a sharing that is written into the law, there should be some flexibility, because I think it would be a shame to screen out localities or parts of States that could not come up with a local match, simply because they do not have the funds to do so. They may be the ones in most need of the help.

Senator CRANSTON. Each of you provided truly outstanding leadership among State efforts to provide affordable housing. Some other States, unfortunately, have lacked the will or the resources or the ability to mount similar initiatives.

That record leads some people to question the wisdom of relying on States to achieve national housing goals. Testimony we will hear later this morning will argue that at least 70 percent of all Federal housing assistance should be allocated to local government. Others argue that housing programs should remain just at the Federal level.

How do you deal with that line of attack on a major role for States? And, how can the legislation strengthen the capacity of States to perform their role in a meaningful way?

Governor DIPRETE. Mr. Chairman, I would suggest again that the Governors, as the chief elected officials and the chief executives at the State level, have the responsibility to all the citizens of the State. Our responsibility, and that of Governor Dukakis and the other Governors around the country, is obviously not limited to one particular part of our State.

My concern is the 1 million residents of Rhode Island. I am equally concerned about all of them. I would suggest that mayors, however sincere and well intentioned, have a more limited constituency. Their constituency is the population of their particular city.

So what I am suggesting is that more flexibility be given to providing a greater role for State government in administering the program, since it is the responsibility, I believe, of the Governors and State government to be sure that all their population is being taken care of—the suburbs, the inner city, the rural parts of the State—cutting across all demographic lines.

I believe the funding point, if you will, is at the Governor's level.

Senator CRANSTON. I appreciate that. I have other questions, but I have to go to the Foreign Relations Committee.

Will you carry on briefly until Senator Gramm gets back?

Senator MACK [presiding]. Certainly.

Let me thank both of you also for your testimony this morning and the comments you have made. I would kind of like to keep the dialog going on the relationship between the State and local.

During the last 6 months, I have had the opportunity to travel around my State, which is the State of Florida, a pretty good-sized State population wise. And there is a pretty good difference in the geographic requirements, you might say. There is a big difference between Jacksonville and Miami, Tampa and Pensacola.

I am just wondering if there is not, for example, some 12½ million people in the State, and the message I hear from the local communities—whether that is Dade County, whether that is Tampa, or whether that is Jacksonville, or whether that is Pensacola—is that they would much rather have the flexibility that you are talking about that you would like to have, at the Federal level.

I guess my question back to you is, do you see that maybe there is a difference in requirements, depending on the type of State that you are dealing with, as to whether more funds ought to flow to the local level than to the State level?

Governor DIPRETE. Senator Mack, I think I would approach it from the point of view that State government has the responsibility of centralized planning, if you will, for the entire State, the responsibility for the suburbs, the rural areas, the inner cities, the coastline, whatever.

There is one central planning point in the State. That is at the Governor's office and the administration of those departments beneath the Governor. I am not suggesting that we should not interact with the localities. We should interact with the localities, certainly, in formalizing any Statewide program. We would be remiss if we did not consider the needs of the various communities, and also galvanize the support of the private sector.

When I say State and local governments, I am also including the private sector. In my own State, my deputy chief of staff, Sandra Sullivan, has really I think come up with a stroke of genius in galvanizing the private sector with the local governments, with State governments, all pulling in the same direction.

We are obviously what you might call a city-State, but if there were ever a plan devised that the State were excluded, ordinarily excluded, from an affordable housing program, in my considered opinion, the dollars would not be as well spent in those areas that are needed, if there were not strong central direction in cooperation with planning from the local level. Certainly, they would be asked to file plans that would be consistent with the overall State plan of affordable housing. They would certainly be an important player, but not the sole quarterback, so to speak.

Senator MACK. Do you have any comments?

Governor DUKAKIS. Senator, let me ask you a question. What is it that the people at the local level are complaining about? Is it that the State government is simply unresponsive, or ties them up in redtape, or both, or what?

Senator MACK. It is the redtape. As a matter of fact, that kind of leads into another comment, I guess. There was a recent editorial in, I believe, the Wall Street Journal, that basically said that regulatory sprawl can add 20 to 25 percent to the price of an average home nationwide.

Then there was also a further comment in the Newark, New Jersey State Ledger, which concluded that it is not the value of labor and building materials that is pushing the average price of homes beyond many, but rather the uncontrolled growth of massive and costly systems of regulation and bureaucracy.

I think, again, drawing on those visits to Miami, Tampa, and Orlando, what has really impressed me is the initiative that is being taken at the local level. I mean, at the local level. You talked I think a moment ago about rewarding with higher density if there are factors of value. That was an initiative that developed at the local level.

Again, I think the argument can be made that the local community knows best what it is trying to accomplish, what its problems are. Again, in a big State, geographically and populationwise, you have many of the same problems at the local level that States complain about, that we approach at the Federal level: that there is too much diversity, that central planning does not work, and that you ought to give the initiative to the local communities to solve those problems. That is what I hear.

Governor DUKAKIS. Well, we do. I mean, the notion of the housing partnership I think first developed in a formal way in my own State. We now have well over 100 communities that are partnership communities.

That development I talked about on Cape Cod was a combination. It was the result of a combination of local initiative, of a relaxation of local regulations, because it was the local zoning that limited the density, but with great encouragement at the State level, and with low-interest mortgages which the State was helping to subsidize. It was that combination of things that made the difference.

Senator MACK. Let me see if I can do this. One of the things I thought I heard you all saying was, in essence, "Give us the flexibility and the money, and we will take care of the rest."

Governor DUKAKIS. Right.

Senator MACK. That is exactly what the cities are saying to the States, I think, "Give us the money, give us the flexibility, give us some direction, but let us make the determinations." If that is in essence what you are saying, I do not really have any problem.

Governor DUKAKIS. That is what I am saying, and I think it works. If for some reason you have a State, or two or three, that just are not doing their job, then I would think that any legislation you would pass would give the Secretary the right to go over them and work directly with the local communities.

But in many, many of these cases, it is local regulation that is getting in the way. That is not a criticism of local governments. But, for example, 2, 3, 4, 5-acre zoning, that is not a creature of State regulation. It is those tough restrictive local zoning laws that have to be lifted if you are going to get increased density and the economies of scale that you are talking about.

Senator MACK. Let me focus back—or, did you have a response?

Governor DIPRETE. No, I was just going to say that that is a very good point that Governor Dukakis brings out. It is State government that has the leverage to take care of, or to combat, so-called snob zoning. State government has the tools, such as perhaps putting in penalties for State aid. You would waive some of your State aid for education, or unrestricted State aid, or you would forego certain benefits that are distributed by the State if you have what is termed to be snob zoning.

If you do not have an affordable housing program within the community, if local governments are not addressing the housing market the way that they should, State government can then step in.

Governor DUKAKIS. As a matter of fact, Senator, without extending this too far, in my State we have an antisnob zoning law, with a State board of appeals to which developers can come, and which will override local zoning if in our judgment a community is deliberately trying to shut out middle-income families.

Senator D'AMATO. Governor, let me ask you something.

Senator MACK. I will be glad to yield my time. [Laughter.]

Senator D'AMATO. I grew up in a little village called Island Park. We had 50-by-100 zoning, 50 percent below the low- and medium-income. It is not snob zoning. I would love to have been able to live, and I guess my family would, in Garden City. You must have heard of Garden City—you campaigned out on Long Island, and you know. But we could not afford it.

Do you mean to tell me, because they have a quarter-acre zoning, that is snob zoning? We are not going to solve this Nation's housing problems by saying, well, there are areas, whether they be in New York, Long Island, or somewhere else, where they have 2-acre zoning, 3-acre zoning—I think that Governor DiPrete's statement that there be some balance throughout the State and throughout a region—because there is a community called Brookville, and they might have 3-acre zoning, or 5-acre zoning—has not created the housing problem.

Are we saying that if we would subdivide that into lots of 100-by-100, that that will create affordable housing? So the lot, instead of costing $5 million is going to wind up costing $500,000. I just think that that is an easy cop-out for a very, very difficult problem as it relates to affordable housing.

Governor DUKAKIS. Senator, you walked in on the middle of the discussion.

Senator D'AMATO. I reacted to the snob zoning.

Governor DUKAKIS. So let me tell you what it was about. Senator Mack was suggesting that, if you got the States involved, the communities would be hamstrung by State regulations that would make it impossible for them to build affordable housing.

I was pointing out that, in a number of cases the problem is local zoning and restrictive zoning, which makes it very difficult to build affordable housing. I am not saying this is the be-all and end-all.

I am saying to you, however, that at least in my State the local community has to make its own decision. We came to the conclusion that all communities had to participate in this.

Yes, the fact that you had 5-acre zoning does exclude middle-income families. You know that, and I know that. It is a small piece of a much broader strategy. But what I simply said before your arrival was that, at least in my own State, this is one way to try to break down local regulations which are in fact making housing prohibitively expensive in some communities, and it has been generally accepted as being an important public housing policy. But it is by no means the whole ball of wax.

Senator MACK. I just want to go back to raise the point about the Wall Street Journal editorial, that regulatory sprawl can add 20 to 25 percent. The impression that is being created, while I do think that the States and local communities—and again, I put the emphasis on the local communities, just because of my experiences—that they have done a great job; but there is evidence that indicates that both State and local regulation have in fact driven up the cost of housing.

In fact, there is one statement—I think the number sounds incredibly high, but I am going to say it anyway. Anthony Downs, a housing expert at the Brookings Institute, was quoted to estimate that 75 percent of the cost of housing is due to requirements in excess of the minimum need for health and safety.

Jack Kemp has shown some figures that indicate that regulation has added some $40,000 to the cost of housing for the average home in Orange County. I would just be interested in your reactions to those kinds of concerns.

Governor DIPRETE. I think that editorial tends to support the thoughts that Governor Dukakis and I were alluding to on whether you want to call it snob zoning, or by whatever other label.

Senator MACK. I would suggest that maybe we use another name. [Laughter.]

Governor DIPRETE. New construction, whose prices are driven up by local regulations. And in fact, it is my recollection that about 15 or 20 years ago the cost of a lot was something like 15 percent, 18 percent of the total cost of the purchase of a new home.

That figure now is somewhere, depending on the area, around 25 to 30 percent of the cost of the new home. Senator D'Amato brought up that he was brought up on a 40- by-100 lot. Many people are perfectly willing to live on 50-by-100 or 100-by-100, or whatever, but are forced to buy 2-acre lots at $2 or $3 a foot, if they want to live in a particular community where they were born and raised, and they are so-called middle-income people, they are not necessarily wealthy. But the cost of that purchase is now driven up artificially by the cost of the land, perhaps improvements that they might not otherwise require.

As I have mentioned, this has doubled, actually, the proportion of cost of the lot vis-a-vis the entire property, in a period of less than two decades.

Governor DUKAKIS. The other thing, obviously, Senator—and Florida has been one of the leaders in this—is that we all face serious environmental problems. You do, we do. And again, how do you strike a balance between the appropriate kind of environmental regulation, and something that is unnecessary and much too expensive? That is something people are wrestling with all the time.

You have got ground water problems, you have got serious issues of water supply, and a variety of other things that you are wrestling with. You have got areas of extraordinary environmental sensitivity that you care about, and every time you impose another regulation, whether it is State or local or for that matter national, it increases the cost.

I guess what I am saying to you—and this is not a criticism of my local governments, because we work very closely and constructively with our mayors and local communities on housing, and we have had extraordinary success—but in my experience, if you talk to a group of developers in my State, the regulations that they complain about the most are local regulations, principally zoning, but not exclusively. That is the thing that keeps getting in the way.

We are constantly trying to break those down and find a way to deal with them and help those developers to build affordable housing for families of moderate income.

Governor DiPRETE. That is absolutely on target, I can assure you, at least in his State and my State, where local zoning in effect is driving out young couples who would like to live in the community that they were raised in, but because of local zoning, the construction costs are driven up artificially high, and they are forced to move elsewhere, when they would just as soon live near home.

Senator MACK. I thank you both for your comments. I guess I would yield to Senator Gramm from Texas. Before I do, the only point I was trying to raise is that, contrary to a feeling that has the potential of being created over the past few years, in the early 1980's, for the last 8 years, when we had a problem in housing in this country—I would suggest to you that there are a lot of reasons, whether it is regulation at the local level, the State level, the governmental or the Federal level, that has driven up the cost of housing.

Every time you do pass a regulation, whether it is us, you, or at the local level, it does impact the cost of housing, and it does push, unfortunately, it pushes the folks at the lower end of the opportunity.

Maybe what we ought to be considering, when Jack Kemp talks about enterprise zones for the creation of jobs, maybe we ought to be talking about some kind of a housing zone in which we eliminate some of this regulation, so that we can in fact get the greatest use of our dollars in the areas where we need it the most.

Governor DUKAKIS. So long as the developer is willing to come back to you with affordable housing. That is what we did in Barnstable, basically. They got four times the density, as long as they were willing to produce housing at affordable cost. But we have got to get involved in that, otherwise we will see communities pushing people out.

Senator GRAMM. Let me first thank you gentlemen for coming today. These are difficult problems, problems that all of us working in the Federal city are a long way away from. It is very helpful to hear from people who actually have ongoing programs.

I am a strong believer in diversity among the States. For example, if your two States decided that this snob zoning, as you call it, is a bad thing, you go in and deal with these agreements, and people can vote with their feet by leaving your States. If we im-

posed such restrictions nationally, there is probably nowhere on Earth to go.

So I believe it is very important in writing these kinds of housing programs to leave a lot of discretion to the States. I would feel, if I were a Governor, that it is important to leave a lot of discretion to the cities, again so that people can experiment, people can make decisions, and then people can react to those decisions.

I want to go back to this drug problem. I realize that it is a big problem. Going back to Jefferson, we believe that education is ultimately the solution to all of our ills, and I hope that is right, and I have convinced myself that it is. But I want to try to deal directly with the drug problem in public housing.

It is a real problem, because it really undermines public support for public housing, when we go out and spend money to try to provide decent housing for low-income people. The reason the taxpayer is spending the money is not only that there is a humane reason, but they also believe that housing of a minimal quality is part of our effort to try to help people get on the playing field and use their God-given talents and escape poverty.

And then, when this public investment becomes the center for drug traffic, people react very negatively. For example, in my State I have a magnet school in a city called Temple, Meredith Magnet, one of the best schools in the country according to the Secretary of Education. It is right next to a big government housing project that is a center for drug traffic, right across the street. That activity makes few friends for public housing.

We have a lot of ambiguities in the law, a lot of real questions about what we can and what we cannot do in terms of people living in public housing that are using and selling drugs.

I would like to ask a couple of questions. What I am trying to do is to get your view as people that are actually involved in running these programs. Should we kick people out of public housing for being convicted of being drug traffickers?

Governor DUKAKIS. Sure.

Governor DIPRETE. I would say so, very definitely.

Senator GRAMM. Let's say that someone is convicted on a drug possession charge. Should they be kicked out of public housing?

Governor DUKAKIS. It depends on the offense.

Senator GRAMM. Let me just, again, try to get a general idea. Let's say someone has cocaine in a public housing unit, and that that housing unit—and I am going to get back to when you would allow searching in a minute—but let's say that it is searched for some reason, say looking for stolen property, and they find cocaine in the public housing unit. Should that family be kicked out of public housing?

Governor DUKAKIS. I would say it depends on the circumstances. Look, there is cocaine all over this town. There is cocaine all over every town in Texas. There is cocaine all over every town in the towns in my State. This stuff is everywhere. It is in our most affluent suburbs, in our middle-income communities, it is in public housing. That is the reality.

Governor DIPRETE. I would probably say, for a first-time offender, that that person or family or whoever be put on firm notice

that that is not going to be tolerated, and on a repeated offense they would be excluded.

The reason I say a first-time offender is because, if you are in public housing and you kick them out or evict them, or whatever, where do they go? Does the State or the locality then pick up another problem to be solved by putting them in some other kind of public shelter, which does not really solve the problem, it just relocates it.

Governor DUKAKIS. Supposing you find it in a house that has got a VA mortgage, do you kick those people out?

Senator GRAMM. I would take the house from them.

Governor DUKAKIS. If one child in that house—if there may be four kids and a husband and wife?

Senator GRAMM. Well, I would certainly take the guaranteed loan. Our society says we are in a war on drugs. Are we then going to subsidize housing for people that are violating the law, that are real drug kingpins since because they are creating the market? So I certainly would look at taking the mortgage.

Governor DUKAKIS. How many high school students in Texas are using drugs right now?

Senator GRAMM. I think you would have less if you had this kind of a program. I do not know, but too many.

Governor DUKAKIS. Maybe one out of four.

Senator GRAMM. Let me ask you if I may another question. In public housing units, what kind of requirements would you have in terms of searching the premises? Would you give HUD the power, if there is reason to believe that drugs are possessed or sold or somehow dealt out of a public housing unit, would you give them the ability to go in and search that unit? Or, would you require that they go and get a court order?

Governor DIPRETE. Well, I feel it is consistent to be tough on crime, and specifically tough on drugs, Senator. But I would respectfully say that the people in public housing would have the same constitutional rights as people in other housing. If there is a reasonable belief that a crime is being committed, I am sure there is a legal process for the appropriate law enforcement official to enter the premises. I think that process should be followed.

Senator GRAMM. Governor?

Governor DUKAKIS. I would agree. You do not lose your constitutional rights if you have to live in public housing.

Senator GRAMM. Let me ask you a question about the homeless, and let me pose the question to both of you. We have a lot of people who are homeless here in Washington, DC, who are sleeping in the parks on benches. Let's say that we establish a program to provide housing for these homeless people.

Do you believe there should be any requirement that they take the housing? In other words, you have people sleeping on public benches. The argument is made that they have no place to go. Let's say the city provides some place for them to go. Would you think it would be a sound public policy to deny them the right to sleep on the park bench, if housing is available?

Governor DIPRETE. I would say that, if housing is available and furnished to that person at no cost, evidently if the person is indigent, then it would be reasonable to say, yes—or, "No, you cannot

sleep on the park bench tonight, because there is a place right over here where you can have a roof over your head."

Senator GRAMM. Governor, what do you think?

Governor DUKAKIS. I would agree generally with Governor DiPrete. On the other hand, somewhere between 30 and 40 percent of the people who are homeless in this country suffer, as I think we all know, from serious mental and emotional problems. They have to be dealt with in ways which I do not think are going to be very simple.

A lot of it has to do with the deinstitutionalization, the failure on our part to provide decent mental hospitals to which people can go who are chronically mentally ill. In my own State, we are now spending a lot of money to do that.

In the 1960's we thought that, if we just opened up the doors and provided some community mental health centers, that you can deal with these problems. We now know, regrettably, that there are a substantial number of people in our country and in our society who, through no fault of their own, are going to become chronically and seriously mentally ill.

The mere fact that you happen to have an apartment across the street I do not think is going to deal with that. So it has got to be, the approach to homelessness has got to be more than simply providing housing.

On the other hand, I think we can agree, based on our experience of the past 8 or 9 years, that if we do not get together affordable housing for low- and moderate-income people, the homelessness problem is going to be more severe.

And again, where you strike the balance and how you deal with this is something that every State has got a responsibility to deal with. In my own State, what we are now trying to do is to create housing for seriously and chronically mentally ill people, that also has support services so folks can live in the community. But we recognize that they have got serious mental and emotional problems that have to be dealt with, and we are going to put up the State money to do that.

Senator GRAMM. Let me ask a final question to both of you, and I will be through. That is in terms of the make-up of the overall program, and I am just talking in general terms now.

Do you think that, in trying to develop a public housing program, we should have the States develop their own programs, the Federal Government have its programs which the States may administer or be involved in—should we have joint programs? If so, should we do it on a matching fund basis?

Ideally, if you were starting over with a new program, how would you like to see that structured?

Governor DIPRETE. I would prefer to see it structured that the key players, Senator, are at the State level, because the Governors, as I mentioned earlier, are accountable to all of the citizens of the State, all income groups, all kinds of housing, and all kinds of neighborhoods; with Federal oversight, certainly, standards that we as Governors would be held accountable to, and these standards would also demand that the States bring into the decision-making process local governments, who would file their own housing plans where appropriate, whether it is with the housing agency or some

other department of the State government, to be sure that on a statewide basis the State is making maximum use of all of the resources available to it to address minorities, rural people, the inner cities and so forth.

I believe the catalyst for that must be State government. But we need the help of the Federal Government as well, particularly the financial resources.

Governor DUKAKIS. Senator, I think the bill Senator Cranston and Senator D'Amato have prepared is the best job I have seen in a long time of trying to build a balanced, mixed system. That is why I said in my prepared testimony that I think it has all the pieces we need to move ahead together.

I don't think you ought to deny the States and local communities the right to do their thing because there are certain things we will do with you or without you.

But the Federal Government can play a very important role here, and I think in the bill that is before you, you have got the makings of what I think would be a very strong long-term housing policy for this country which you don't have to change every other year, and that will give us the opportunity to provide real leadership and to provide some matching funds and/or resources because I think you have a right to expect that of us if you are going to put up some money as well, and I would strongly urge you to do that.

Senator GRAMM. Thank you, Mr. Chairman.

Senator GRAHAM. Senator D'Amato.

Senator D'AMATO. Mr. Chairman, I would like to thank both Governors for coming in. I think their testimony is important, and they are to be commended for taking time from their schedule to participate because I honestly believe that with regard to the affordable housing problem, particularly as it relates to working families—I can share the experiences of New York and the New York metropolitan and suburban communities.

Once the great strength, Mr. Chairman, of our island, Long Island, and particularly Westchester and the environs outside of the city, was the capacity to be able to provide affordable housing for working families, whether they were schoolteachers, police officers, or young professionals. Today, tragically, that is no longer the case. The price, the cost for the Levittowns—we have heard of Levittown, which gave to the returning veteran an opportunity for homeownership—is now beyond the means of most young couples, even those earning $35,000 and $40,000.

When would we ever consider people earning $30,000 or $40,000 to be in crisis? Yet these families are in crisis because there is no housing opportunity, particularly as it relates to homeownership, in these communities.

In Levittown, the average house now sells at well over $160,000, $170,000, and that is at the lower end of the cost spectrum, and that is if you can find one there.

It is a great crisis, and we are going to need the kind of innovative leadership that both Governors have provided, along with the help and cooperation of the local community, and smaller sized lots certainly. Zoning is one aspect, the codes as they relate to whether it is cluster zoning in our suburban communities, which for so long was fought but does not destroy the amenities or the area, does not

depreciate value but gives opportunity, whether it is tax abatement, or whether it is properties which communities own that they make available for development so that they can reduce that cost to young families.

So I think it is an area that is growing. We have experienced it first, I think, in the Northeast, but there are other regions throughout the country that are going to begin to face the same kind of situation in the not too distant future, and I would hope that we can get ahead of that problem nationwide.

I thank the Governors for their participation and for their general support of the legislative proposal that Senator Cranston and I have been working on.

Governor DUKAKIS. Mr. Chairman, could I make one comment?

I want to commend you, Senator, for your leadership on this issue. I remember—you probably may recall—during the course of the campaign I paid a visit to the family of a retired transit authority police officer who lived in Levittown and whose son, a college graduate and State police officer, couldn't afford to live in Levittown.

Just the other day, Mr. Chairman, we read a study about Governor Cuomo having a coffeeklatch in a home in Levittown, where they are paying nearly $6,000 a year for property taxes, and this family doesn't know whether or not they can stay in Levittown.

These were homes, Mr. Chairman, that sold for $7,200 right after World War II, and they are paying close to $6,000 a year in property taxes. We have got a massive problem out there, and if you can give us a hand in support, we will go out there and do the job for you, but we need that help.

Thank you.

Senator GRAHAM. Governors, one of the theories behind the legislation that Senator Cranston and Senator D'Amato drafted is to try to create a focus of strategic planning on housing, particularly at the State level. I applaud that objective.

One of the concerns that I see is that the Federal programs are so diverse, distributed oftentimes contradictory, and they come both through the titles that you would anticipate the housing program coming under, the Housing and Urban Development Department, and then particularly in the Tax Code special preferences—the tax-free bonds for low and moderate income housing, et cetera.

I would be interested in your thoughts from the perspective of your individual States as to how you would see that State strategy trying to integrate all of the diversity of what has developed as Federal housing policy.

Governor DUKAKIS. Mr. Chairman, you have given us pretty good authority now. Remember, we are the folks that decide who gets the tax-free bonds. We decide who gets tax credits, and if the other provisions of the bill are adopted we are going to have a pretty broad range of tools with which to work at the State level.

Just don't take them away from us because the ability to approve that tax credit is a very important part of our housing strategy, and I can assure you it is a key part of what we try to do as we bring private developers in and try to build mixed income housing.

But if you make the States the focal point of this effort, with very strong links to the local communities, and you give us general

authority as you have now over tax refunds and the allocation of those tax credits, I think you are giving us what we need.

Governor DiPRETE. I would agree, Senator Graham. I think the bill provides the necessary safeguards, tools, and the leverage for State government working in cooperation with localities, and the form that the bill is presently in I am very comfortable with.

Senator GRAHAM. One last question. You represent States that have had a long history in terms of involvement in housing, and you have reached the level of sophistication and professionalism of your operations.

Would you have any recommendations of what the Federal Government should be doing in order to help other States that have not had that kind of history in housing so that they will be in the most advantaged position to accept the responsibility which this act will place upon them?

Governor DUKAKIS. Mr. Chairman, I would say two things. First, I think HUD should play an active role in helping States.

Second, I think the NGA can play a role. I don't see any reason why our committee, which Ed chairs, and the staff of the NGA—and you are very familiar with the National Governors' Association as well as COSCA and some of the other key umbrella groups of State agencies—shouldn't be working very closely with those States that are relatively new to the housing business.

If at the same time Secretary Kemp and the folks at HUD can take on this responsibility for genuinely helping States that may be new at the housing business and sharing the experiences, good experiences and not so good experiences, that States have had that have been active in the housing business, a good energetic role for HUD and the NGA and our staff and constituent agencies working with the States can make a difference, and I am sure we would want to do that.

Governor DiPRETE. Yes, I think the role of HUD would be a key factor here, Senator Graham, and if the bill provides the necessary authorizations, flexibility, and financial resources with some direction to the Secretary of HUD—I think I read in one of the papers today that Secretary Kemp announced yesterday some additional help for cities on homelessness who have special problems aimed at erasing poverty—I think that kind of incentive is what is needed, and those programs are there. I would say that the public will see the Governors in those States that are not presently active or State agencies that are not presently active certainly take hold of the programs, or they should be prodded to do so.

Governor DUKAKIS. We will do the consulting free of charge, Bob. No $300,000 fee is required.

Senator GRAHAM. I won't comment on the judgment that you have exercised in making that offer. [Laughter.]

Mr. Chairman.

Senator CRANSTON [presiding]. Thank you very much for carrying on during my forced absence.

Al, do you have any further questions?

Senator D'AMATO. No, Mr. Chairman.

Senator CRANSTON. I want to thank both of you very much. I have some further questions I would like to ask you, and we could go on exchanging views all morning and all afternoon. But we have

other witnesses we have to get to so I and others will presumably have some questions to submit to you in writing.

Thank you all very, very much.

Governor DUKAKIS. Thank you. We are very excited about what you all are doing and look forward to working with you.

Senator CRANSTON. The members of the next panel will now come forward to the table.

[Pause.]

Senator CRANSTON. The committee will please come to order once again.

I would like to note that we will be having a hearing in July on the subject of drugs in both public and private housing.

I am delighted that we now have with us witnesses Mayor George Voinovich of Cleveland, Mayor Edward Koch of New York, Joseph Riley, mayor of Charleston, SC, Ann Klinger, supervisor of the county of Merced in my State—I welcome you with particular pleasure—and Patrick Halpin, Suffolk County Executive from New York.

Mayor Voinovich, thank you for coming and thank you for your presence.

STATEMENT OF GEORGE VOINOVICH, MAYOR OF CLEVELAND, OH

Mayor VOINOVICH. Senator Cranston, Senator D'Amato, Senator Mack, I am George Voinovich, mayor of the city of Cleveland.

I am grateful for this opportunity to testify in favor of the National Affordable Housing Act.

As the mayor of a major American city, I deal with the problems that the act is designed to address. First of all, a portion of the National Affordable Housing Act proposes to fully fund homeless programs and consolidate the various categorical grants previously authorized under the Stewart B. McKinney Act in what amounts to a homelessness block grant.

I think that is great. This would allow Cleveland, in conjunction with our own homelessness task force, to spend our allocation in a manner that will best meet the needs that we have in our community.

Also, I strongly support efforts to merge the voucher and section 8 certificate programs into a comprehensive rental subsidy program. Use of rental credits will give localities the discretion to provide subsidies on a project-by-project basis in a manner which will enhance the ability of developers, particularly local development corporations, to secure bank financing and other development resources. Those vouchers have walked around for the last several years and haven't produced very much low and moderate income housing in American cities.

The portion of the national act that I find the most intriguing and which I hope to make the major focus of my testimony today is the proposal for housing opportunity partnerships, the HOP. The thrust of the partnerships is to provide funding for those rehabilitation or redevelopment activities that combine both public and private resources and stress leveraging of resources through the careful use of public dollars.

In Cleveland, public/private partnerships, particularly the Cleveland Housing Network, have produced 345 new or rehabilitated units since 1986. We have 121 units currently under construction this year and nearly 200 more units in negotiation for construction this season.

All of these units use tax syndication employing the low income housing tax credit. It is very important that it be continued. I would like to see it be made permanent.

It is important to note that the blend of public and private resources for both construction and takeout financing in this tax syndication model.

Construction financing is done with a combination of short-term loans from private nonprofit sources, such as the Local Initiative Support Corporation, LISC, or the Enterprise Foundation, and from public sources such as the Community Development Block Grant Program, and other State or municipally controlled Federal funding.

The point I am making is that through this act you are going to continue to keep at the table the private sector, who heretofore has not been involved in dealing with the housing crisis that we have in our cities throughout the country.

Now, we can cry about the fact that the Federal Government has backed off from housing. There has been a cut of some 81 percent. The fact is that we have seen some very, very novel approaches to doing housing on the local level, and I think the thing that intrigues me about this bill is the HOME and the HOP program where we are galvanizing all of our resources—the State resources, the local resources, the private sector, the banks. The banks are involved today in providing low interest loans because nonprofit organizations are depositing money in linked deposits and they pass on that lower interest to a housing project in our city. Everybody is involved in getting the job done.

Now, the obstacle to our continued growth of production in using the public/private partnership is not the capacity of our nonprofit developers, but the availability of public dollars needed to reduce the overall rate of mortgage financing to a level that results in affordable rents.

The housing opportunity partnership program will provide a flexible source of such financing to supplement our use of currently used sources and our CDBG funds.

In other words, the point I am making here today, as the President talks about the thousand points of light, if you want to keep those thousand points of light going in cities all over this country this legislation is essential.

I refer to the Federal role in this as the yeast that raises the dough on the local level. If we don't have those yeast programs, you are not going to see those private sector people that have been at the table stay at the table.

In my judgment, passage of this act will provide, also, incentives to a State like Ohio. Ohio is one of the few States in the United States that has not declared housing a public purpose, and I believe that with the requirement that you have in this bill of 25 percent State participation that we will get off our duff and get out and amend our constitution. We will get off our duff and create a hous-

ing trust fund in the State of Ohio so that we can participate in taking advantage of this program.

I think you ought to do everything you can to get the States involved in providing housing, and I believe that we are making great progress in that area, but if it is going to continue, we need this carrot and stick approach. I believe that the States are aware we should be doing our business. I think our public/private partnerships should be more often with our States than with the Federal Government. This bill is going to get the States a lot more involved in solving the problems that we are confronted with on the local level.

And I applaud your effort, and I really hope that your colleagues will support your efforts, Senator Cranston and Senator D'Amato.

[The complete prepared statement of Mayor George V. Voinovich follows:]

City of Cleveland
GEORGE V. VOINOVICH, MAYOR

ALL-AMERICA CITY

TESTIMONY OF GEORGE V. VOINOVICH

MAYOR OF CLEVELAND, OHIO

BEFORE THE SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

TUESDAY, JUNE 6, 1989, 10:00 a.m.

ON THE NATIONAL AFFORDABLE HOUSING ACT (S565 S566)

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE. I AM GEORGE VOINOVICH, MAYOR OF CLEVELAND, OHIO. I AM GRATEFUL FOR THE OPPORTUNITY TO TESTIFY IN FAVOR OF THE NATIONAL AFFORDABLE HOUSING ACT. AS THE MAYOR OF A MAJOR AMERICAN CITY, I MUST DEAL WITH MANY OF THE PROBLEMS THAT THE NATIONAL AFFORDABLE HOUSING ACT IS DESIGNED TO ADDRESS ON A DAY-TO-DAY BASIS.

* A PORTION OF THE NATIONAL AFFORDABLE HOUSING ACT PROPOSES TO FULLY FUND HOMELESS PROGRAMS AND TO CONSOLIDATE THE VARIOUS CATEGORICAL GRANTS PREVIOUSLY AUTHORIZED UNDER THE STEWART B. MC KINNEY ACT INTO WHAT AMOUNTS TO A HOMELESSNESS BLOCK GRANT. THIS WOULD ALLOW CITIES SUCH AS CLEVELAND TO EXPEND ITS ALLOCATION IN A MANNER BEST DESIGNED TO MEET SPECIFIC LOCAL NEEDS AND CONDITIONS.

* I ALSO STRONGLY SUPPORT EFFORTS TO MERGE THE VOUCHER AND SECTION 8 CERTIFICATE PROGRAMS INTO A COMPREHENSIVE RENTAL SUBSIDY PROGRAM. USE OF "RENTAL CREDITS" WILL GIVE LOCALITIES THE DISCRETION TO PROVIDE SUBSIDIES ON A PROJECT BASIS IN A MANNER THAT WILL ENHANCE THE ABILITY OF DEVELOPERS, PARTICULARLY LOCAL DEVELOPMENT CORPORATIONS, TO SECURE BANK FINANCING AND OTHER DEVELOPMENT RESOURCES TO EXPAND THE SUPPLY OF AFFORDABLE HOUSING.

* THE PORTION OF THE NATIONAL AFFORDABLE HOUSING ACT THAT I FIND THE MOST INTRIGUING AND WHICH I HOPE WILL MAKE THE MAJOR FOCUS OF MY TESTIMONY TODAY IS THE PROPOSAL FOR HOUSING OPPORTUNITY PARTNERSHIPS. THE THRUST OF THE PARTNERSHIPS IS TO PROVIDE FUNDING FOR THOSE HOUSING REHABILITATION OR DEVELOPMENT ACTIVITIES THAT COMBINE BOTH PUBLIC AND PRIVATE RESOURCES AND STRESS LEVERAGING OF RESOURCES THROUGH THE CAREFUL USE OF PUBLIC DOLLARS.
IN CLEVELAND, PUBLIC-PRIVATE PARTNERSHIPS, PARTICULARLY THE CLEVELAND, HOUSING NETWORK, HAVE PRODUCED 345 NEW OR REHABILITATED

UNITS SINCE 1986, WITH 121 UNITS CURRENTLY UNDER CONSTRUCTION AND NEARLY 200 MORE UNITS IN NEGOTIATION FOR CONSTRUCTION THIS SEASON. ALL OF THESE UNITS USE TAX SYNDICATION EMPLOYING THE LOW INCOME HOUSING TAX CREDIT.

IT IS IMPORTANT TO NOTE THE BLEND OF PUBLIC AND PRIVATE RESOURCES FOR BOTH CONSTRUCTION AND TAKEOUT FINANCING IN THIS TAX SYNDICATION MODEL.

CONSTRUCTION FINANCING IS DONE WITH A COMBINATION OF SHORT TERM LOANS FROM PRIVATE NON PROFIT SOURCES SUCH AS THE LOCAL INITIATIVE SUPPORT CORPORATION OR THE ENTERPRISE FOUNDATION AND FROM PUBLIC SOURCES SUCH AS THE COMMUNITY DEVELOPMENT BLOCK GRANT OR OTHER STATE OR MUNICIPALLY CONTROLLED FEDERAL FUNDING.

TAKEOUT FINANCING CONSISTS OF APPROXIMATELY 40% EQUITY PROVIDED BY LOCAL CORPORATIONS INVESTING TO TAKE ADVANTAGE OF THE LOW-INCOME HOUSING TAX CREDIT. ANOTHER 20% OF THE TAKEOUT FINANCING PACKAGE IS PRIVATE MONEY IN THE FORM OF A LOAN FROM A PRIVATE COMMERCIAL BANK, WHERE THE EFFECTIVE RATE IS SUBSIDIZED BY A LINKED DEPOSIT MAKE BY A LOCAL FOUNDATION OR BENEVOLENT INVESTOR SEEKING SOME SOCIAL GOOD OUT OF ITS INVESTMENT. THE FINAL 40% OF THE TYPICAL PACKAGE IS COMPRISED OF GOVERNMENT FINANCING SUCH AS COMMUNITY DEVELOPMENT BLOCK GRANT OR OTHER STATE OR MUNICIPALLY CONTROLLED FEDERAL SOURCE. THE PIE CHART ATTACHED TO MY PRINTED REMARKS WILL VISUALLY DEMONSTRATE THIS TAKEOUT FINANCING PACKAGE.

THE HOUSING OPPORTUNITY PARTNERSHIP PROPOSAL IS MOST TIMELY! CLEVELAND'S ABILITY TO INCREASE THE NUMBER OF UNITS PRODUCED USING THE TAX SYNDICATION MODEL WITH A PUBLIC-PRIVATE PARTNERSHIP IS VERY REAL. THE

CORPORATE COMMUNITY, AS YOU WILL HEAR THROUGH THE TESTIMONY OF RICHARD SHATTEN, EXECUTIVE DIRECTOR OF CLEVELAND TOMORROW, IS NOW CONVINCED THAT AFFORDABLE HOUSING IS A VERY GOOD INVESTMENT.

THE OBSTACLE TO OUR CONTINUED GROWTH OF PRODUCTION USING THE PUBLIC-PRIVATE PARTNERSHIP TAX SYNDICATION MODEL IS NEITHER THE CAPACITY OF OUR NON PROFIT DEVELOPERS TO RESPOND NOR THE LACK OF PRIVATE FINANCING. RATHER, THE KEY FACTOR FOR INCREASED HOUSING PRODUCTION IS THE AVAILABILITY OF THE PUBLIC DOLLARS NEEDED TO REDUCE THE OVERALL RATE OF MORTGAGE FINANCING TO A LEVEL THAT RESULTS IN AFFORDABLE RENTS. THE HOUSING OPPORTUNITY PARTNERSHIP PROGRAM WILL PROVIDE A FLEXIBLE SOURCE OF SUCH FINANCING. WE CAN SUPPLEMENT OUR USE OF CURRENTLY USED SOURCES SUCH AS COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS IN BOOSTING HOUSING PRODUCTION LEVEL WITH OUR PUBLIC-PRIVATE MODEL.

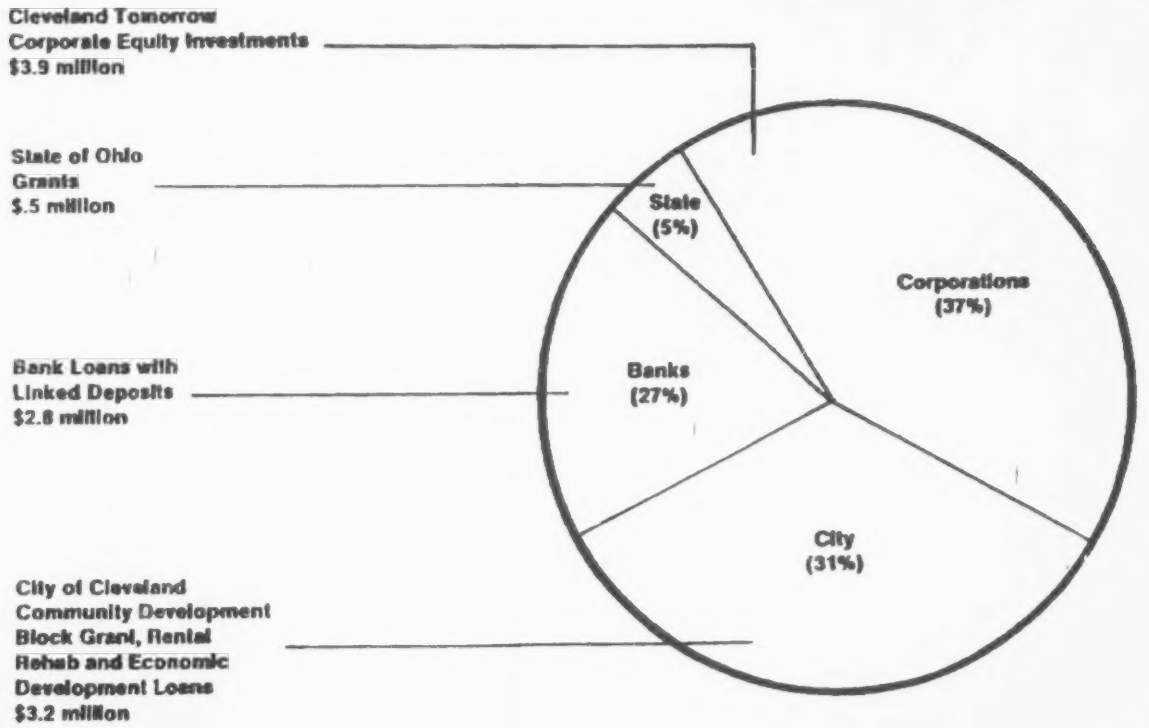
I AM ALSO PLEASED TO SEE THE HOUSING OPPORTUNITY PARTNERSHIP'S PROPOSAL FOR A LOCAL MATCH REQUIREMENT BECAUSE I BELIEVE IT WILL STIMULATE GREATER PARTICIPATION IN HOUSING PRODUCTION BY STATES SUCH AS OHIO. UNFORTUNATELY, THE STATE OF OHIO IS NOT WELL POSITIONED AT THIS TIME TO PROVIDE THE MATCH REQUIRED BY THE CURRENT LANGUAGE OF THE BILL. THE PREVAILING INTERPRETATION OF THE STATE CONSTITUTION DOES NOT CONSIDER HOUSING TO BE A "PUBLIC PURPOSE". A LEGAL CLOUD HANGS OVER THE STATE OF OHIO AND ITS LOCAL GOVERNMENTS IN USING LOCALLY GENERATED TAX DOLLARS FOR HOUSING PURPOSES.

IN MY JUDGEMENT, PASSAGE OF THE HOUSING OPPORTUNITY PARTNERSHIP PROGRAM WILL PROVIDE INCENTIVE FOR OHIO TO AMEND ITS CONSTITUTION OR, ALTERNATIVELY, TO CHALLENGE THE PREVAILING LEGAL INTERPRETATION IN COURT.

IN CONCLUSION, I STRONGLY SUPPORT PASSAGE OF THE NATIONAL AFFORDABLE HOUSING ACT. THIS IS ONE OF THE MOST IMPORTANT PIECES OF FEDERAL URBAN LEGISLATION I HAVE SEEN DURING MY NEARLY 10 YEARS AS MAYOR OF CLEVELAND.

CLEVELAND HOUSING PARTNERSHIP EQUITY FUND
SOURCES OF PROJECT FINANCING

TOTAL UNITS: 299
Total Development Cost: $10.4 million



Senator CRANSTON. Thank you very much. We appreciate that very strong testimony.

Mayor Koch.

STATEMENT OF EDWARD KOCH, MAYOR OF NEW YORK, NY

Mayor KOCH. Thank you very much, Senators and Mr. Chairman.

We love your bill. The fact is you have taken our telephone number. S. 566 is New York City's telephone number. So it is a lucky number.

I would like to give you some facts which you may already have, but I will just repeat them for the record.

Between 1981 and 1988, the annual amount of Federal housing assistance which we received in New York City fell from $2.5 billion to less than $1 billion. In total, since 1981 New York City lost over $12 billion in Federal housing assistance, and nationwide more than $200 billion in potential funding for new and assisted housing was lost.

If we had gotten that $12 billion, we could have produced over 65,000 additional units of new and existing rehabilitated housing.

I want to tell you a little bit about our city program. I think we are one of the few cities in the country that has done it, but we have taken our capital budget and over a 10-year period we have allocated $5.1 billion for housing. We are on target.

Last year we did 7,000 units, this year 10,000, next year 17,000. The units are rolling off the production line at the rate of between 800 and 1,000 units a month. We do it by way of lottery. You have to fit the financial profile; 60 percent of all the units and money will be going to families whose income is $19,000 or less, many on welfare; 27 percent will be going to families whose family income is $19,000 to $32,000, and 13 percent going from $32,000 to $53,000.

When we do all of our units, 252,000 units, we will have served probably half of the number that are looking for apartments. So the need is desperate, and that is why we would like additional Federal assistance. It will not in any way reduce our commitment over a 10-year period of over $5 billion.

One of the key elements of the plan is a comprehensive effort to renovate the 47,000 units in vacant, abandoned buildings that you see occasionally. They talked about bombed out Berlin, and so forth. It is not so bombed out any more; 28,000 of those apartments are already either under design contracts or under rehabilitation, gut rehabilitation contracts, and every one of them will have been rehabilitated and occupied by the end of 1993.

I go around the city twice a week handing out symbolic keys to the families who get them on a lottery basis. To fit the financial profile, you go into the lottery. We have a telephone number that people can call to find out what apartments are available by address. The number happens to be 566-HOME.

We are very proud of that program. The 47,000 units that I just talked about will cost us $2.4 billion in city funds. One-third of those units will be set aside for totally homeless families, with the remainder going to other low- and moderate-income families.

Over the last 4 years we have placed 18,000 homeless families into such apartments. By 1993, we will have placed another 15,000, which is their allocation of these 47,000 apartments that will come online. So we are quite proud of what we have done.

This fiscal year the city of New York is spending $640 million in local tax levy funds for housing. That is more than five times what the next 10 largest cities combined are spending in local funds for housing. New York's dollar spending, local tax revenue dollars, will be $900 million in the fiscal year which starts on July 1, but nevertheless it is not enough and we have to do more.

I want to support what the mayor said a moment ago with respect to the Federal local initiative legislation which is running out, the so-called Federal low income housing tax credit. At this moment, in joint efforts with LISC, the Local Initiative Support Corporation, and the Enterprise Foundation, we are producing over and above what we normally produce, 3,000 new housing units, by combining city funds with the proceeds from syndication with the tax credits. So we hope that that stays in the legislation and gets passed.

Finally, with respect to the HOP program, we hope that the distribution of funds will be on a formula basis. If the formula is adequate, New York City will receive its fair share. We didn't in the past. We hope we will now.

[The complete prepared statement of Mayor Edward Koch follows:]

TESTIMONY OF MAYOR EDWARD I. KOCH

THE CITY OF NEW YORK

PRESENTED BEFORE

THE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

OF THE

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

U.S. SENATE

JUNE 6, 1989

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I WOULD LIKE TO BEGIN BY THANKING YOU FOR INVITING ME HERE TODAY TO TESTIFY. THIS SUBCOMMITTEE, AND SENATORS CRANSTON AND D'AMATO IN PARTICULAR MUST BE CONGRATULATED. THEIR EFFORTS ON BEHALF OF THIS BILL HAVE BEEN TRULY EXTRAORDINARY.

AFTER YEARS OF FAILURE ON THE PART OF THE FEDERAL GOVERNMENT TO PROVIDE ADEQUATE HOUSING ASSISTANCE, THE FACT THAT BOTH HOUSES OF CONGRESS ARE NOW CONSIDERING SERIOUS NEW HOUSING BILLS CANNOT GO UNNOTICED. DURING THESE HEARINGS, I AM CERTAIN THAT THIS SUBCOMMITTEE WILL FIND SUPPORT TIME AND AGAIN FROM CITIES THROUGHOUT THE NATION WHO AGREE WITH THE GOALS OF THE NATIONAL AFFORDABLE HOUSING ACT, WHO WANT TO SEE FEDERAL HOUSING ASSISTANCE RESTORED, AND WHO ALSO WANT FLEXIBILITY IN DECIDING HOW THE MONEY WILL BE SPENT--FLEXIBILITY WHICH WILL ENSURE THAT THESE FUNDS ARE IN FACT WELL SPENT. WE SHARE YOUR VISION FOR A NEW NATIONAL HOUSING POLICY THAT INCORPORATES THESE GOALS AND WE WILL WORK TO SEE THAT THAT VISION BECOMES A REALITY.

THE CITY OF NEW YORK HAS BEEN CONFRONTED WITH CRUCIAL CHALLENGES TO ITS HOUSING STOCK INCLUDING TRENDS SUCH AS WIDESPREAD DISINVESTMENT AND BUILDING ABANDONMENT IN THE 70'S AND SHARPLY RISING CONSTRUCTION COSTS IN THE 80'S. HOWEVER, IN SPITE OF THESE CHALLENGES, NEW YORK CITY HAS

REDOUBLED ITS EFFORTS TO BUILD, RENEW AND REVITALIZE LOW AND MODERATE INCOME HOUSING.

THE MOST RECENT THREAT TO THE CITY'S HOUSING STOCK HAS BEEN THE DRAMATIC LOSS OF FEDERAL FUNDING FOR ASSISTED HOUSING. SINCE THE LATE 1970'S AND THE HEYDAY OF FEDERAL HOUSING ASSISTANCE, THE FEDERAL GOVERNMENT HAS NOT MAINTAINED AN ADEQUATE LEVEL OF SPENDING ON ASSISTED HOUSING. IN FACT, AFTER A LONG PRECIPITOUS DECLINE, THE FEDERAL HOUSING BUDGET HAS ONLY RECENTLY BOTTOMED OUT AT ITS MEAGER PRESENT LEVEL. UNFORTUNATELY, NEW YORK CITY WAS ESPECIALLY HARD HIT BY THE MASSIVE CUTS IN FEDERAL ASSISTANCE THAT TOOK EFFECT BETWEEN FEDERAL FISCAL YEARS 1981 AND 1989; AND, AS A RESULT, THE CITY WAS FORCED TO STEP IN AND MAKE UP FOR THE STAGGERING LOSSES IN FEDERAL HOUSING ASSISTANCE.

DURING THIS PERIOD, THE ANNUAL FEDERAL HOUSING ASSISTANCE WHICH NEW YORK CITY RECEIVED DROPPED FROM APPROXIMATELY $2.5 BILLION TO ITS CURRENT LEVEL OF LESS THAN $1 BILLION. IN FACT, HAD 1981 FUNDING LEVELS BEEN MAINTAINED TO THE PRESENT, NEW YORK CITY WOULD HAVE RECEIVED CLOSE TO $18 BILLION IN FUNDING INSTEAD OF THE LESS THAN $6 BILLION WE ACTUALLY RECEIVED. WITH THESE FUNDS, THE CITY COULD HAVE PRODUCED NEARLY 37,000 ADDITIONAL UNITS OF NEW HOUSING AND ASSISTED ABOUT 66,000 ADDITIONAL EXISTING UNITS.

IN THE ABSENCE OF THIS FEDERAL ASSISTANCE, WE COULDN'T SIMPLY STAND BY AND WATCH OUR HOUSING STOCK DETERIORATE AND CRUMBLE. SO, AFTER TURNING AROUND THE CITY'S ECONOMY AND REGAINING A SOLID BOND RATING, I PUT FORTH A PLAN TO HELP RESTORE HEALTH TO NEW YORK CITY'S HOUSING STOCK. THE PLAN--NEW YORK CITY'S TEN YEAR PLAN FOR HOUSING--CALLS FOR $5.1 BILLION, MOSTLY IN CITY CAPITAL FUNDS, TO ASSIST IN THE PRODUCTION AND REHABILITATION OF 252,000 HOUSING UNITS, WITH 87 PERCENT OF THESE UNITS TARGETED TO LOW AND MODERATE INCOME NEW YORKERS.

ONE OF THE KEY ELEMENTS OF THE PLAN IS A COMPREHENSIVE EFFORT TO RENOVATE THE VACANT BUILDINGS WHICH LITTER MANY OF THE CITY'S LOWER INCOME NEIGHBORHOODS. THE CITY CURRENTLY OWNS APPROXIMATELY 50,000 UNITS IN VACANT BUILDINGS WHICH WE WERE FORCED TO TAKE OVER DUE TO TAX FORECLOSURE. THROUGH THE TEN YEAR PLAN, WE WILL REHABILITATE ALL OF THESE UNITS AT A COST OF $2.4 BILLION IN FUNDS. SINCE REINTEGRATING THE HOMELESS INTO COMMUNITIES IS A PRIORITY OF MY ADMINISTRATION, ONE-THIRD OF THE 47,000 UNITS WILL BE SET ASIDE FOR THE HOMELESS, WITH THE REMAINDER GOING TO OTHER LOW AND MODERATE INCOME FAMILIES.

THIS FISCAL YEAR, THE CITY OF NEW YORK IS SPENDING $640 MILLION IN LOCAL FUNDS FOR HOUSING PRODUCTION AND REHABILITATION, MORE THAN FIVE TIMES WHAT THE TEN NEXT LARGEST CITIES COMBINED ARE SPENDING IN LOCAL FUNDS. NEW

YORK'S OWN SPENDING WILL RISE TO $900 MILLION IN THE FISCAL YEAR BEGINNING NEXT MONTH. BUT IN SPITE OF THESE MASSIVE EFFORTS TO BUILD AND REHABILITATE EXISTING HOUSING UNITS, WE DESPERATELY NEED THE FEDERAL GOVERNMENT TO DO MORE.

THE NATION AS A WHOLE SUFFERED THE SAME FEDERAL BUDGET CRUNCH AS NEW YORK CITY. BETWEEN 1981 AND 1989, MORE THAN $200 BILLION IN POTENTIAL FUNDING FOR NEW AND ASSISTED HOUSING WERE "LOST" NATIONWIDE DUE TO THE SUDDEN DEMISE OF THE HUD BUDGET. THIS REPRESENTS ABOUT 750,000 NEWLY PRODUCED AND ABOUT 900,000 ASSISTED UNITS OF HOUSING FOREGONE NATIONWIDE DURING THIS PERIOD.

MEANWHILE THE DRAMATIC EFFECTS OF HOMELESSNESS AND HOUSING DETERIORATION ARE BEING FELT THROUGHOUT THE NATION, AND DESPITE LOCAL EFFORTS TO REVERSE THESE TRENDS, A RENEWED COMPREHENSIVE NATIONAL PROGRAM WILL BE THE ONLY TRULY EFFECTIVE SOLUTION TO THE NATION'S HOUSING CRISIS.

IF ONLY FOR THE SIMPLE REASON THAT THIS BILL REPRESENTS A REVERSAL OF THE RECENT TREND IN FEDERAL SPENDING FOR HOUSING, WE CAN BE ENTHUSIASTIC IN OUR SUPPORT OF THE NATIONAL AFFORDABLE HOUSING ACT. HOWEVER, OUR ENTHUSIASM FOR THIS BILL IS NOT LIMITED TO THE INCREASED SUPPORT FOR HOUSING PROGRAMS WHICH IT WOULD PROVIDE. WE CAN ALSO SOLIDLY ENDORSE THE NEW FORM WHICH THIS ASSISTANCE WOULD TAKE. FOR EXAMPLE, STRUCTURING THE "HOP" PROGRAM ALONG THE

LINES OF A BLOCK GRANT THAT IS FLEXIBLE AND RESPONSIVE TO THE NEEDS OF INDIVIDUAL LOCALITIES, WILL, IN FACT, MAKE THE BEST USE OF THESE FUNDS BY ENABLING LOCAL GOVERNMENTS TO TAILOR PROGRAMS TO SUIT THEIR NEEDS.

HOWEVER, IT IS ESSENTIAL THAT IN MOVING TOWARD THIS GOAL WE STAY FOCUSED ON THE NEED FOR INCREMENTAL ASSISTANCE. WHILE THERE CAN BE NO DOUBT THAT THIS BILL HAS THE POTENTIAL TO STREAMLINE FEDERAL HOUSING ASSISTANCE--AND IN DOING SO REGISTER A MAJOR IMPROVEMENT OVER PAST INITIATIVES--IT CANNOT BE SEEN AS A SUBSTITUTE FOR EXISTING SOURCES OF FUNDING WHICH CITIES LIKE NEW YORK RELY HEAVILY ON, SUCH AS THE COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) AND RENTAL REHABILITATION PROGRAMS.

THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM, IN PARTICULAR, HAS BEEN ONE OF THE MAJOR CORNERSTONES OF NEW YORK CITY'S EFFORTS TO REHABILITATE ITS EXISTING HOUSING STOCK. IN FACT, OVER 70 PERCENT OF THE CITY'S FISCAL YEAR 1988 ALLOCATION OF $168 MILLION WAS UTILIZED FOR REHABILITATION ACTIVITIES, AND SINCE 1978, THE CITY HAS ALLOCATED APPROXIMATELY $2 BILLION OF ITS $2.7 BILLION IN CDBG FUNDS TO HOUSING.

RATHER THAN CONSIDERING SEPARATE LEGISLATION REAUTHORIZING CDBG, RENTAL REHAB AND OTHER PROGRAMS UNDER HUD'S COMMUNITY PLANNING AND DEVELOPMENT UMBRELLA, I URGE THE SUBCOMMITTEE TO INCORPORATE THESE PROGRAMS INTO S.566 AT A LEVEL AT LEAST

EQUAL TO CURRENT FUNDING. WITH THESE REAUTHORIZATIONS, THE NATION'S CITIES WILL BE ABLE TO MOVE FORWARD WITH NEW INITIATIVES WITHOUT HAVING TO BACKSLIDE ON EXISTING PROGRAMS.

I WOULD LIKE TO COMMEND SENATORS CRANSTON AND D'AMATO FOR INCLUDING THE REAUTHORIZATION OF ALL PUBLIC HOUSING PROGRAMS AND INCLUDING NEW FUNDS FOR PUBLIC HOUSING DEVELOPMENT IN S.566. PUBLIC HOUSING UNITS ARE AT A PREMIUM IN THE CITY OF NEW YORK AS THEY ARE IN MANY PARTS OF THE NATION. SINCE 1980, ONLY 818 NEW UNITS OF PUBLIC HOUSING HAVE BEEN FUNDED FOR THE CITY OF NEW YORK. WITH OVER 200,000 FAMILIES ON THE NEW YORK CITY HOUSING AUTHORITY'S WAITING LIST, CLEARLY CONGRESS MUST DO BETTER.

I ALSO WOULD LIKE TO EXPRESS MY SUPPORT FOR TWO OTHER SECTIONS OF THE BILL: THE EXPANSION OF THE LOW-INCOME HOUSING PRESERVATION ACT OF 1987 (WHICH IS SECTION II OF THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1987) AND THE EXTENSION OF THE MORTGAGE REVENUE BOND AND MORTGAGE CREDIT CERTIFICATE PROGRAMS THROUGH 1992. SIMILARLY, I URGE CONGRESS TO EXTEND THE AUTHORIZATION FOR THE EMERGENCY LOW-INCOME HOUSING PRESERVATION ACT WHICH IS SET TO EXPIRE ON FEBRUARY 5, 1990.

NOW, I WOULD LIKE TO MOVE ON TO A DISCUSSION OF SOME SPECIFIC ISSUES PERTAINING TO THREE MAJOR PORTIONS OF THE

BILL--THE "HOP" HOUSING PRODUCTION/ REHABILITATION PROGRAM, THE NEW "RENTAL CREDIT" SYSTEM, AND THE REDESIGN OF HOMELESS ASSISTANCE UNDER THE MCKINNEY ACT.

THE "HOP" PROGRAM

FIRST, I WOULD LIKE TO COMMEND THE SENATORS FOR DESIGNING A PROGRAM WHICH IS FLEXIBLE ENOUGH TO ALLOW LOCAL GOVERNMENTS TO TAILOR PROGRAMS TO MEET THEIR OWN PARTICULAR NEEDS. I AM ALSO PLEASED TO SEE THAT THE FUNDS WILL BE LOCKED INTO DISTRIBUTION BY FORMULA SINCE THIS WILL EFFECTIVELY RULE OUT THE POSSIBILITY OF AWARDING FUNDS BASED ON PERSONAL INTERESTS RATHER THAN PROGRAM MERITS OR LOCAL NEED.

YOU SHOULD ALSO KNOW THAT THE CITY STRONGLY ENDORSES THE LINE OF CREDIT/REVOLVING TRUST FUND APPROACH TO "HOP" FUNDING. CLEARLY, A LINE OF CREDIT IS MUCH MORE EFFICIENT THAN A ONE-TIME ALLOCATION OF MONEY. BY ISSUING FUNDS ONLY ON AN AS-NEEDED BASIS, THE FEDERAL TREASURY WOULD BENEFIT FROM GREATER LIQUIDITY AND CONGRESS COULD BE ASSURED OF A RAPID TURNAROUND TIME BETWEEN THE DRAWDOWN AND THE USE OF THE FUNDS. THE REVOLVING TRUST FUND ASPECT WILL ALLOW GRANTEES TO RECYCLE FUNDS FROM PROJECTS WHICH NO LONGER MEET "HOP" GUIDELINES BY PUTTING THEM TO USE IN NEW AREAS. YOU CAN BE ASSURED THAT THE POSSIBILITIES FOR RECYCLING THESE FUNDS ARE INEXHAUSTIBLE.

THE BASIC STRONG POINTS OF THE PROGRAM ARE THOSE WHICH ALLOW FOR THE GREATEST AMOUNT OF FLEXIBILITY AND CREATIVITY IN BOTH DESIGN AND IMPLEMENTATION. HOWEVER, IT IS EASY TO FORESEE SOME OF THE MORE TECHNICAL RESTRICTIONS OF THE "HOP" DESIGN GETTING IN THE WAY OF OUR ABILITY TO EFFECTIVELY OPERATE THE PROGRAM. ONE SUCH HINDRANCE IS THE PROVISION WHICH REQUIRES THAT HUD CERTIFY THAT THE HOUSING WHICH THE FUNDS WILL BE USED FOR IS IN COMPLIANCE WITH THE RULES OF THE TITLE AS WELL AS THE JURISDICTION'S APPROVED HOUSING STRATEGY EACH TIME A PORTION OF THE FUNDS ARE REQUESTED.

FOR EXAMPLE, SINCE IT WOULD BE IMPOSSIBLE TO ASCERTAIN THE INCOMES OF TENANTS BEFORE THE UNITS HAVE BEEN CONSTRUCTED, CERTIFICATION OF COMPLIANCE WITH "THE RULES" AT THE TIME FUNDS ARE REQUESTED WOULD BE AN UNNECESSARY AND UNWISE STEP. INSTEAD, "HOP" ASSISTED UNITS SHOULD BE CERTIFIED FOR COMPLIANCE WITH THE RULES AND APPROVED HOUSING STRATEGY AT A PRE-DETERMINED FIXED PERIOD OR INTERVAL--A TIME WHICH WOULD NOT HINDER OUR ABILITY TO OBTAIN FUNDS WHEN THEY WERE NEEDED AND WHEN COMPLIANCE WITH ALL OF THE RULES COULD IN FACT BE CONFIRMED.

SIMILARLY, I AM CONCERNED ABOUT THE PROVISION IN THE BILL WHICH WOULD REQUIRE GRANTEES TO ADVANCE FUNDS FROM THE TRUST FUND TO THE INTENDED PROJECT WITHIN 15 DAYS OF DRAWDOWN. WHILE I WOULD AGREE THAT LOCALITIES CANNOT BE ALLOWED TO WITHDRAW HOUSING TRUST FUND MONEY ONLY TO HOLD ONTO IT OR

DIVERT IT TO OTHER USES, A RIGID FIFTEEN DAY DEADLINE DOES NOT ALLOW ANY ROOM FOR UNEXPECTED CIRCUMSTANCES WHICH MIGHT OCCUR. FOR EXAMPLE, THE FATE OF A MEDIUM TO LARGE SCALE CONSTRUCTION PROJECT SHOULD NOT BE CONTINGENT ON FINANCIAL TRANSFERS, ACCOMPLISHED THROUGH COMPUTER SYSTEMS, SUCCESSFULLY OCCURRING ON THE 15TH RATHER THAN THE 16TH DAY AFTER RECEIPT OF THE FUNDS. AS AN ALTERNATIVE TO THIS, THE SUBCOMMITTEE SHOULD CONSIDER REMOVING THIS INFLEXIBLE DEADLINE AND INSTEAD ESTABLISH AN ANNUAL REVIEW OF THE INTERVALS BETWEEN DRAWDOWN AND USE OF THE FUNDS (AT WHICH TIME HUD CAN ASSIGN PENALTIES IF THE GRANTEE'S PERFORMANCE IS FOUND TO BE DEFICIENT).

THE CITY ENDORSES THE SENATORS' ORIGINAL PROJECT CERTIFICATION PLAN IN THE NATIONAL AFFORDABLE HOUSING ACT CONCEPT PAPERS ISSUED LAST FALL. IT SET UP A SYSTEM TO VERIFY PROJECTS' COMPLIANCE WITH "HOP" RULES THROUGH AN ANNUAL CERTIFICATION PROCESS, SIMILAR TO WHAT OCCURS UNDER THE CDBG PROGRAM. AT THE TIME OF CERTIFICATION, HUD WOULD AUDIT "HOP" PROJECTS AND ASSIGN PENALTIES OR REQUIRE REPAYMENTS FOR PROJECTS WHICH WERE NOT IN COMPLIANCE WITH THE RULES. UNLIKE THE CERTIFICATION REQUIREMENTS IN S.566, SUCH A SYSTEM WOULD STREAMLINE THE ACTUAL CERTIFICATION PROCESS AND WOULD NOT IMPEDE PROGRESS ON THE CONSTRUCTION AND/OR REHABILITATION OF THE "HOP" UNITS.

ANOTHER DRAWBACK OF THE "HOP" PROGRAM CONCERNS THE DISTRIBUTION OF FUNDING TO STATES VERSUS LOCAL GOVERNMENTS. IN GENERAL, STATES ACTUALLY PLAY A MUCH MORE LIMITED ROLE RELATIVE TO LARGE CITIES IN TERMS OF THE AMOUNT OF FUNDS THEY ARE COMMITTING AND THE SCOPE OF THE HOUSING PROGRAMS IN WHICH THEY ARE INVOLVED. THUS, ALLOCATING "HOP" FUNDS TO NEW YORK STATE FOR WITHIN THE NEW YORK CITY REGION WOULD ONLY SERVE TO ADD ANOTHER ADMINISTRATIVE LAYER AND AN UNNECESSARY DUPLICATION OF EFFORTS TO THE ULTIMATE GOAL OF PRODUCING AND REHABILITATING HOUSING.

IN GENERAL, WE BELIEVE THAT THE ALLOCATION OF FUNDS TO TWO SEPARATE SOURCES FOR USE IN A SINGLE JURISDICTION CAN ONLY CAUSE UNNECESSARY COMPLICATION. AS A RESULT, "HOP" GUIDELINES SHOULD ALLOW THE FORMULA FUNDS (80 PERCENT OF THE "HOP" PROGRAM TOTAL) TO BE ALLOCATED TO STATES ONLY IN THE EVENT THAT LOCALITIES ARE EITHER TOO SMALL OR CHOOSE NOT TO PARTICIPATE, AND NOT IN CASES IN WHICH THE LOCALITY ITSELF RECEIVES AN ENTITLEMENT. IN LINE WITH THIS SYSTEM, THE STATES' "NEED" WOULD BE MEASURED BY LOOKING ONLY AT THESE NON-ENTITLEMENT REGIONS, EXCLUDING AREAS LIKE NEW YORK CITY WHICH WOULD RECEIVE ITS OWN ENTITLEMENT GRANT.

THE CDBG ENTITLEMENT FORMULA--WHICH DIRECTS 70 PERCENT OF THE FUNDS TO METROPOLITAN CITIES AND URBAN COUNTIES AND 30 PERCENT TO STATES--COULD SERVE AS A MODEL BY WHICH "HOP" FORMULA FUNDING WOULD BE DISTRIBUTED. S.566 CLEARLY

RECOGNIZES THAT LOCAL GOVERNMENTS ARE AT THE CENTER OF THE MAJOR EFFORTS TO CREATE NEW HOUSING AND COMBAT HOMELESSNESS BY ALLOCATING THE MCKINNEY BLOCK GRANT ACCORDING TO A 70/30 SPLIT, WITH 70 PERCENT GOING TO LOCAL GOVERNMENTS AND 30 PERCENT DIVIDED AMONG THE STATES.

FINALLY, THE CITY ENDORSES THE INCOME ELIGIBILITY REQUIREMENTS AND LOW INCOME TARGETING OF THE "HOP" PROGRAM WITH THE EXCEPTION OF ONE --THE PROVISION WHICH LIMITS THE INCOMES OF THE PURCHASERS OF "HOP" HOMES TO 100 PERCENT OF THE AREA MEDIAN. THIS LEVEL IS SIMPLY TOO LOW FOR NEW YORK CITY. EVEN WITHOUT DEVELOPER'S PROFIT, THE COST OF CONSTRUCTING NEW HOMES IN NEW YORK CITY EXCEEDS $130,000, WHICH IS ALREADY 1.6 TIMES THE COST OF A HOME WHICH A FAMILY WHOSE INCOME WAS AT THE NEW YORK CITY MEDIAN COULD AFFORD.

S.566 ASSUMES THAT FAMILIES WITH INCOMES BELOW THE MEDIAN WILL BE ABLE TO AFFORD HOMES SELLING FOR UP TO 95% OF THE MEDIAN SALES PRICE. IN FACT, GIVEN A TWENTY YEAR MORTGAGE AT AN INTEREST RATE OF 10 PERCENT, FAMILIES WITH INCOMES AT THE NEW YORK CITY MEDIAN OF $33,800 (THE "HOP" INCOME CAP) CAN ONLY AFFORD HOMES WHICH SELL FOR LESS THAN 40 PERCENT OF THE NEW YORK AREA MEDIAN SALES PRICE (WHICH WAS $192,000 IN THE THIRD QUARTER OF 1988).

THE CITY BELIEVES THAT THE "HOP" INCOME CAP FOR PURCHASERS OF "HOP" HOMES SHOULD NOT BE SET UNIVERSALLY AT THE MEDIAN.

BUT RATHER, IT SHOULD REFLECT THE ACTUAL COSTS OF HOUSING IN ANY GIVEN LOCALITY. AS SUCH, WE ARE ASKING FOR A LOOSENING OF THESE RESTRICTIONS FOR HIGH COST AREAS. THE MISCELLANEOUS REVENUE AND TECHNICAL CORRECTIONS ACT OF 1988 SET THE INCOME CEILING FOR THE MORTGAGE REVENUE BOND PROGRAM AT 140 PERCENT OF MEDIAN IN CERTAIN AREAS WITH HIGH HOUSING COSTS. THE CITY ADVOCATES A PARALLEL ADJUSTMENT IN THE "HOP" INCOME CEILING TO 140 PERCENT OF MEDIAN IN HIGH COST AREAS.

"RENTAL CREDITS"

IN DRAFT FORM, THE NATIONAL AFFORDABLE HOUSING ACT CONTAINED A PROVISION WHICH WOULD HAVE ALLOWED STATES AND LOCALITIES TO CHOOSE WHETHER THEIR RENTAL ASSISTANCE IN THE FORM OF "RENTAL CREDITS" WOULD BE PROJECT BASED OR TENANT BASED. IN ITS CURRENT FORM, S.566 RESTRICTS THE USE OF "RENTAL CREDITS" IN A PROJECT BASED FORM TO 15 PERCENT OF A GRANTEE'S TOTAL ALLOCATION. WE FIND THIS 15 PERCENT LIMITATION TO BE TOO RESTRICTIVE FOR THE CITY OF NEW YORK.

STATES AND LOCALITIES MUST HAVE THE ABILITY TO UTILIZE RENTAL ASSISTANCE TO SUPPORT LOW INCOME TENANTS IN PROJECTS WHICH THEY DEVELOP EITHER SINGLEHANDEDLY OR IN PARTNERSHIP WITH PRIVATE OR FEDERAL SOURCES. THE INCOMES OF THE TENANTS IN MANY OF THESE PROJECTS ARE OFTEN SO LOW THAT, WITHOUT RENTAL SUBSIDIES, THE PROJECTS THEMSELVES WOULD NOT BE

ECONOMICALLY FEASIBLE. IN OTHER WORDS, EVEN IF THESE BUILDINGS ARE DEBT FREE, THE TENANTS' UNSUBSIDIZED RENTS ARE NOT HIGH ENOUGH TO COVER THEIR MAINTENANCE AND OPERATING COSTS. THEREFORE, WE ARE ASKING THAT AN EXCEPTION BE MADE TO THIS RULE FOR AREAS LIKE NEW YORK CITY WHICH EVIDENCE PARTICULARLY LOW VACANCY RATES.

FURTHER, GIVEN A FINITE AMOUNT OF ASSISTANCE, THE CITY RECOGNIZES THE NEED TO TARGET RENTAL ASSISTANCE TO THE MOST NEEDY FAMILIES, DEFINED AS FAMILIES WITH INCOMES BELOW 50 PERCENT OF THE MEDIAN. HOWEVER, RENTAL ASSISTANCE IS ALSO ESSENTIAL AS A MEANS TO PREVENT THE DISPLACEMENT OF LOW INCOME FAMILIES IN EXISTING HOUSING--AN EVENT WHICH CAN OFTEN LEAD TO HOMELESSNESS.

CLEARLY, THE AUTHORS OF S.566 RECOGNIZED THE IMPORTANCE OF THIS SINCE THEY MADE SPECIAL ALLOWANCES FOR TENANTS IN FEDERALLY OWNED OR ASSISTED PROJECTS AND FOR TENANTS ALREADY RECEIVING SECTION 8 RENTAL ASSISTANCE WHOSE INCOMES ARE BETWEEN 50 AND 80 PERCENT OF MEDIAN. WE WOULD LIKE TO SEE THIS PROVISION EXTENDED TO INCLUDE THE TENANTS IN EXISTING/OCCUPIED STATE AND MUNICIPALLY ASSISTED PROJECTS AS WELL AS FEDERAL PROJECTS. LIKE FEDERAL PROJECTS, MANY OF THE LOW INCOME TENANTS IN NEED OF ASSISTANCE IN THESE BUILDINGS HAVE INCOMES BETWEEN 50 AND 80 PERCENT OF MEDIAN.

FINALLY, WE BELIEVE THAT A COMMITMENT TO SUPPLY "RENTAL CREDITS" FOR A PERIOD LONGER THAN 5 YEARS WILL BE NECESSARY TO CONVINCE PRIVATE OWNERS TO PARTICIPATE IN THE "RENTAL CREDITS" PROGRAM, AS WELL AS TO ENSURE THAT UNITS CREATED UNDER THE HOP PROGRAM REMAIN AFFORDABLE TO LOW INCOME FAMILIES. A LONG-STANDING COMMITMENT TO THE "RENTAL CREDIT" PROGRAM--SPECIFICALLY, 15 RATHER THAN 5 YEAR CONTRACTS--MUST BE ASSURED IN ORDER TO ENSURE THAT HOP AND OTHER ASSISTED HOUSING REMAINS AFFORDABLE FOR THE LONGEST FEASIBLE PERIOD OF TIME.

HOMELESS ASSISTANCE

THE CITY SUPPORTS THE BILL'S PROVISIONS WHICH WOULD EXTEND THE AUTHORIZATION FOR THE MCKINNEY ACT AND REFORM ITS FUNDING PROCEDURES TO ALLOW STATES AND LOCALITIES TO DECIDE HOW BEST TO ALLOCATE THESE FUNDS.

AS IS THE CASE WITH THE "HOP" PROGRAM, WE ALSO FAVOR THE FORMULA METHOD OF ALLOCATING THESE FUNDS. BY CASE IN POINT, IN 1987, NEW YORK CITY RECEIVED ONLY 2.8 PERCENT OF THE NATIONWIDE TOTAL AND IN 1988 WE RECEIVED ONLY 4 PERCENT OF THE TOTAL MCKINNEY FUNDING. YET A RECENT STUDY BY THE URBAN INSTITUTE REPORTED THAT NEW YORK HAS 14 PERCENT OR MORE OF THE NATION'S HOMELESS. WE ARE OPTIMISTIC THAT A FORMULA TAKING INTO ACCOUNT OBJECTIVE MEASURES OF HOMELESSNESS, POVERTY, OVERCROWDING, AND THE RELATIONSHIP BETWEEN THE

POPULATION AND THE SUPPLY OF LOW-RENT UNITS WILL RESULT IN A MORE EQUITABLE DISTRIBUTION OF FUNDS.

IN SPITE OF OUR ENTHUSIASM AND SUPPORT FOR THE NEW FORM WHICH THE MCKINNEY PROGRAM WOULD TAKE, WE BELIEVE THAT THE PROGRAM SHOULD BE FURTHER REVISED TO PERMIT THE USE OF THESE FUNDS FOR THE DEVELOPMENT OF PERMANENT HOUSING FOR THE HOMELESS. TO DATE, THE CITY OF NEW YORK HAS PROVIDED ROUGHLY 18,000 UNITS OF PERMANENT HOUSING TO THE HOMELESS, AND IN TOTAL, 15,000 HOMELESS UNITS WILL BE SUBSTANTIALLY REHABILITATED UNDER THE TEN YEAR PLAN. WITH THESE NEWLY CREATED UNITS, THE CITY HAS AND WILL BE ABLE TO END THE CYCLE OF HOMELESSNESS FOR THOUSANDS OF FAMILIES BY INTEGRATING THEM BACK INTO COMMUNITIES.

WHILE WE RECOGNIZE THE NEED TO CONTINUE TO FUND AND SUPPORT TRANSITIONAL HOUSING, HOMELESS HOUSING SHOULD NOT BE AN EITHER/OR PROPOSITION. BOTH TRANSITIONAL AND PERMANENT HOUSING OPPORTUNITIES MUST BE CREATED TO STEM THE TIDE OF HOMELESSNESS NATIONWIDE.

FINAL COMMENTS AND CONCLUSIONS

IN CLOSING, I WOULD LIKE TO MAKE ONE FINAL SUGGESTION TO CONGRESS IN REGARD TO THE SECTION OF THE BILL WHICH MANDATES HUD'S APPROVAL OF A COMPREHENSIVE HOUSING STRATEGY BEFORE A PARTICIPATING JURISDICTION CAN RECEIVE FUNDING. WE ARE

SKEPTICAL OF THE PORTION OF THIS PROVISION WHICH GIVES THE HUD SECRETARY THE DISCRETION TO REJECT A HOUSING STRATEGY BASED ON HIS OR HER DISAGREEMENT WITH LOCAL POLICIES AFFECTING LAND AND OTHER PROPERTY. CLEARLY, CITIES MUST BE ABLE TO PRESERVE THEIR RIGHTS TO LEGISLATE FOR THEMSELVES WITHOUT FEAR OF REPRISAL OR INTERFERENCE FROM THE FEDERAL GOVERNMENT, PROVIDED OF COURSE THAT THOSE POLICIES ARE IN COMPLIANCE WITH APPLICABLE FEDERAL STATUTES SUCH AS THE FAIR HOUSING PROVISION.

HOWEVER, HAVING SAID ALL OF THIS, I BELIEVE THAT THIS BILL REPRESENTS A FIRST GIANT STEP ON THE WAY TO A NEW ERA IN FEDERAL HOUSING POLICY. I AM OPTIMISTIC THAT S.566 WILL LEAD THE WAY IN PROVIDING ADDITIONAL INCREMENTAL HOUSING ASSISTANCE AS WELL AS THE FLEXIBILITY TO ENABLE LOCAL GOVERNMENTS, SUCH AS NEW YORK CITY, TO CONTINUE TO MOVE FORWARD WITH THEIR HOUSING EFFORTS; AND I AM ENCOURAGED AFTER HAVING SEEN WHAT THE BILL DOES PROVIDE.

THE CITY OF NEW YORK STRONGLY ENDORSES S.566. WITH ONLY MINOR MODIFICATIONS, THIS BILL COULD BE A GREAT ENABLER FOR CITIES AND A CATALYST TOWARD OUR COMMON GOAL--WHICH IS TO MAKE HOUSING MORE ACCESSIBLE AND AFFORDABLE TO OUR MOST NEEDY RESIDENTS.

Senator CRANSTON. Thank you very much. We appreciate your testimony very, very much.

Mayor Riley.

STATEMENT OF JOSEPH RILEY, MAYOR OF CHARLESTON, SC

Mayor RILEY. Thank you very much, Mr. Chairman and members of the subcommittee.

I am very pleased to be representing the U.S. Conference of Mayors, my city, and Americans who are ill-housed and homeless everywhere.

A writer observed a few years ago that America was a very interesting country. He said that at the national level we are a country of great wealth, at the local level we are a country of great need and poverty, and as luck would have it, he observed, everybody lives at the local level.

The crisis in affordable housing in this country is a national disgrace. Homelessness is in fact the most visible tip of a huge iceberg. We commend the National Affordable Housing Act, thank its authors, and encourage its passage this year.

I would like to add that I was privileged to serve on the committee that you, Senators Cranston and D'Amato, set up. As the only public official on that committee, I am very proud that our recommendations are a keystone of the legislation.

Since the Depression two caravans have been passing each other, the more affluent moving out of our cities, the rural poor moving in. For two generations the cities of our country, largely working closely with the national government, have sought to respond to the challenge of restoring the neighborhoods of our cities that were damaged by this change in providing decent, safe, and affordable housing for our constituency.

A key element in your legislation is that of flexibility. HOME and HOP will allow already existing resources and programs to be used as well as will encourage new ones to be formed in our cities to provide affordable housing.

In our small city we have observed—and cities across the country—that it is not a shortage of will or capacity at the local level to solve our housing problem. It is a matter of resources. In our community we have not only traditional city initiatives on homeownership, rental rehabilitation; we have churches involved in acquiring and restoring houses; we have neighborhood organizations—Neighborhood Housing Services of America; we have large and small nonprofits; we have individual small entrepreneurs; we have large entrepreneurs.

We have our homeless shelter. It is operated by 2,000 volunteers in the course of a year that spend the night looking after the homeless citizens of our community. Habitats for Humanity is involved. Tomorrow we will be beginning a new process where local individuals and particularly one very affluent church members will come and physically construct transitional housing shelters for our homeless.

The flexibility that the bill allows is the key. The solution to the housing crisis in our country requires many actors. That was a key

element of this recommendation. It is a key component of your bill, and we commend it.

The Conference of Mayors is concerned about one recommendation, which is the relative State and local split of 50/50. Many States in our country today have not been that involved in addressing the housing crisis.

The census report showed in 1986–87 that nationally $21 billion was spent on housing and community development. Of that, about $20 billion was spent by the Federal Government, about 95 percent of that either through local governments or local housing agencies.

The capacity and the framework exists at the local level, and we feel we command the involvement of the States. The long-range solution to this problem requires State and local collaboration, but we wonder if the 50/50 match isn't too heavy in regard to the State at the beginning and we recommend 70/30 as being better.

We like the idea of local match; 25 percent is an important leveraging tool. We would urge that the HUD Secretary be given some flexibility in applying this. From time to time many cities through various studies of indices may not have the fiscal capacity to meet the match, and they should not be slighted.

We commend the approach to new public housing that may be small scale and varied input. We feel that we have pioneered the scattered site public housing. We had 100 units. We scattered them throughout our neighborhoods. The people see them as homes, not projects. They are integrated with people of other experiences and other economic backgrounds.

We think it makes sense. We are pleased that it is part of the bill. Large, huge public housing projects are unwise.

While considering the bill, we would hope that the committee would also this year make sure that the existing programs are reauthorized. The Community Development Block Grant as well as other HUD assistance programs are a key element of any city's ability to comprehensively address our housing needs and we need those to be reauthorized.

In my small city we have a goal, a new goal. That is that every single vacant, dilapidated residential structure be transformed into housing for low- and moderate-income citizens, with the city acquiring those that are necessary. We know we can do it. We have got the will. We need the resources. The cities in this wealthy Nation do not have to have slums, do not have to have ghettos. Our people should be living in decent housing as a matter of national priority.

In conclusion, the Conference of Mayors salutes you and commends the bill. We like the fact that you have couched housing as a national investment, as a part of our country's infrastructure. We see the bill as a very good beginning to getting our country back on the track of assuring decent, safe, and sanitary housing for every American and cities with healthy, safe, and livable neighborhoods.

Thank you very much.

[The complete prepared statement of Mayor Joseph Riley follows:]

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TESTIMONY OF

JOSEPH P. RILEY, JR.
MAYOR OF CHARLESTON

PAST PRESIDENT

THE U.S. CONFERENCE OF MAYORS

BEFORE THE

SENATE BANKING COMMITTEE
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

JUNE 6, 1989

TESTIMONY OF JOSEPH P. RILEY, JR., PAST PRESIDENT, THE U.S. CONFERENCE OF MAYORS, TO THE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS OF THE SENATE BANKING COMMITTEE, JUNE 6, 1989 ON STATE AND LOCAL STRATEGIES OF THE NATIONAL AFFORDABLE HOUSING ACT, S. 566

Mr. Chairman, Members of the Subcommittee, I would like to thank you for the opportunity this morning to testify on the role of state and local governments in developing housing strategies as provided in S. 566, The National Affordable Housing Act. My name is Joseph P. Riley, Jr. I am the Mayor of Charleston, South Carolina, and Past President of The U.S. Conference of Mayors, and will in a couple of weeks host in my city the 57th Annual Meeting of The U.S. Conference of Mayors.

Mr. Chairman, The U.S. Conference of Mayors supports S. 566, and pledges to work with you and the subcommittee to get a housing bill passed this year. There are many reasons why this legislation deserves support, especially the provision addressing the development of housing strategies by state and local government.

First, the legislation has been well thought out. The basis of S. 566 consists of the shared opinion of nearly every major housing group in the country. We have all had our say. More than seventy groups responded to the initial Cranston/D'Amato call for suggestions. There were three national task forces working on ideas for a national housing policy; one

-- The National Housing Task Force -- on which I had the opportunity to participate. In addition, many national, state, and local groups held special conferences to develop ideas for new housing initiatives, ideas which no doubt are reflected in S. 566. As we have testified to before, The U.S. Conference of Mayors also played a part by bringing many groups together in a National Housing Forum in Austin, Texas, where experts from around the country agreed in large part on the basic ideas for a new housing policy. One of the principal ideas of the Austin Meeting was a housing initiative similar to the Housing Opportunity Program, the centerpiece of S. 566. This idea is sound; variations on it have been suggested by many national organizations and national housing experts.

Second, we need housing legislation to reauthorize programs already working well. The Community Development Block Grant program and other HUD-assisted housing programs will expire at the end of September and will no longer have authorization. These programs, of course, are the mainstay of any comprehensive legislation and should not be allowed to expire as they have in the past and be continued for a period of time through congressional appropriations. To states and localities, these programs are important, and their authorizations should be thought to be as important as FHA was before it became permanently authorized.

The legislation, especially that concerning state and local strategies, is very close to the policy that mayors have called for throughout the 80's. We have wanted a program that would give maximum flexibility to local governments in addressing housing needs, and a program which would make it possible to produce new housing as well as to substantially rehabilitate housing.

Hopefully, Mr. Chairman, S. 566 is the beginning of the return of a significant federal commitment to housing production. The $3 billion dollar commitment, or $3.75 billion, when you figure in the matching requirement, is significant in today's budget deficit climate. It provides an important start. But this does not nearly address housing needs. I repeat, the $3 billion HOP is only a start. Ultimately, we must judge our efforts by need and by what we have done in the past, and not by what we judge ourselves able to do at present.

Mr. Chairman, the $3 billion level can be increased over the years by the same effort that has led to the bill that we testify to this morning. What has given rise to the tremendous enthusiasm in support of new housing legislation has come from those of us who are close to the critical housing needs of America. We all know the staggering statistics of need: the fact that we are losing more and more low income housing; the fact that people have less income in which to pay for housing,

which leads them to pay a higher percentage of their income on housing; the fact that we have a growing homeless problem as evidenced in The U.S. Conference of Mayors' most recent report on hunger and homelessness; the fact that our public housing continues to deteriorate without any real response to this most critical need; the fact that the elderly and the handicapped must have housing to provide for their needs. We have seen all of this. Moreover, we know that the nation can do better, because the nation once had a record where it did better. We must recommit ourselves to this housing effort.

More specifically, Mr. Chairman, there are many excellent provisions for states and localities in S. 566. First, the legislation will provide help to states and localities in designing and implementing affordable housing strategies. Most significantly, it gives help in providing more funds to be used along with the low income housing tax credit and other resources to provide more low income housing. To be sure, the $17,000 per unit that the bill would provide will not build a low cost unit in my city or any other American city but it will provide additional funding to make projects feasible that would not have otherwise been so without the additional funding provided by the HOP. Additional funding will also be provided through credit enhancement which will enable states and localities to produce even more housing. The Home Corporation should also be effective

by providing a means to share ideas among state and localities for designing and implementing strategies.

With the HOP, states and localities will mesh their resources to provide housing assistance in a proper balance among city, suburban, and rural areas. Both the criteria for awarding HOP funds to entitlement areas and to states and the required housing strategy will ensure that there is cooperation between states and localities.

Mr. Chairman, while the National Affordable Housing Act is good legislation for the reasons I have stated, it does give local governments several concerns when it comes to implementing the state and local strategy.

One, of course, is the proposed split in HOP funds between states and localities. During testimony on the concept papers last September, we voiced strong opposition to the proposed 50/50 split, and since that time our views have not changed. Mr. Chairman, the 50/50 split between states and localities does not coincide with traditional or current practice. Local governments have traditionally had the responsibility of administering housing programs, whether from city hall or the local public housing agency. States have not had this role. This practice has occurred for good reason. Local governments have been there to identify and address the problems. The expertise, without

question, is most assuredly on the local government level. This has been recognized in virtually every piece of federal housing legislation since 1949. Housing programs have changed but this fact has remained constant: the housing delivery system is on the local level. Of course, we will argue as representatives of local governments for a larger share of the pie, and states will naturally do the same. But if you address this question to an impartial panel of housing experts and scholars, my bet is that they would say that the expertise for administering housing assistance has been on the local level and continues to be there.

The simple fact is that states do not have a significant presence in housing. According to a Bureau of Census Report on Government Finances in 1986/87, the national total spent on housing and community development was $21.3 billion. Of the $21.3 billion, $20.2 billion was spent by the federal government. The $20.2 billion spent by the federal government was funneled through states and localities. States only spent $1.3 billion of which $487 million were state funds. Local governments, on the other hand, spent $10.5 billion, of which $642 million were local funds. The remaining $9.5 billion primarily went to local public housing agencies. If nothing else, this shows that local governments have experience delivering housing assistance, whereas the states do not.

I would suggest that the proper distribution between

localities and states is 70/30, respectively. This would be my own suggestion as The U.S. Conference of Mayors has not addressed the issue, but will do so at the annual meeting in Charleston a couple of weeks from now. Further support for this distribution can be seen in the breakdown of households in metropolitan/ nonmetropolitan areas of the country (assuming that states would take on the role of administering housing assistance to nonmetropolitan areas) where it is 80% and 20%, respectively.

As for the 25% matching requirement, it appears fair but needs to be carefully examined so as to make sure that states and localities will be able to participate in the HOP program. The U.S. Conference of Mayors policy does support a matching requirement for state and local governments, although the support for the level of match has not been established. Specifically, The U.S. Conference of Mayors policy says that "the match requirement must be sensitive to the capacity of state and local areas to meet the match." We would suggest that the HUD Secretary, who is to make a decision on whether to allow a state or locality to phase in the match requirement, be provided a list of capacity indicators which would help with the decision. Some indicators could be income, tax, and other revenue bases.

We are somewhat concerned about the language in Section 105 regarding the Secretary's approval of local housing strategies. We trust that the committee agrees with us that federal officials

should not be given discretion to deny funds to a city based upon their opinion of a locality's housing or land use policies.

We want to be assured that the Secretary's review extends only to the completeness of the information provided by cities and does not give the Secretary the authority to withhold funds if he doesn't agree with a city's inclusion or exclusion of particular policies.

To clarify this issue, we propose that language be added specifying that:

"The Secretary's review of housing strategies shall extend only to determine whether the information required by subdivision (b) of Section 105 is complete."

In closing, Mr. Chairman, I thank you and Senator D'Amato and other members of the subcommittee for the opportunity to testify. We at The U.S. Conference of Mayors believe that with all of us working together, a housing bill can be passed this year.

Senator CRANSTON. Thank you, Joe, very much for very helpful testimony, and thank you also for representing the Conference of Mayors, and thank you for your work on the task force.

Supervisor Klinger, we are delighted to have you here. Thank you very much for coming all the way across the country to be here.

I know you are presently the vice president of the National Association of Counties and will soon become president. That is great. It is wonderful to have a supporter of our activities on that committee.

STATEMENT OF ANN KLINGER, SUPERVISOR, COUNTY OF MERCED, MERCED, CA

Ms. KLINGER. Thank you. Good morning, Mr. Chairman, and distinguished members of the subcommittee.

I am Ann Klinger, president elect of the National Association of Counties and a supervisor from Merced County.

I am very pleased to represent county officials who applaud your efforts and your leadership in reestablishing a new focus on national housing policy. The 3,000 counties in this country are committed to working with you and refining the National Affordable Housing Act.

We know the local housing markets. County officials interact with the real estate industry and the nonprofit developers regularly, if not daily. County officials have the expertise and the political will to produce housing. Directing most of the housing opportunity partnership funds to local governments will avoid layers of bureaucracy, which was mentioned earlier, entail administrative costs and impede local flexibility.

The NACo Community and Economic Development Steering Committee recommends that 70 percent of the HOP funds be allocated to urban counties and metropolitan cities and the balance to the States.

Your bill provides an effective framework for the Federal Government to reemerge as a partner in producing affordable housing. It formalizes a major Federal funding role in housing while acknowledging the preeminent role of local governments and agencies in designing and producing affordable housing for low and moderate income people.

The population of my county in Merced has increased by more than 23 percent in 7 years. We are grappling with ways to house both new and long-term residents. We face problems of overcrowding of large families, and some communities have 40 percent substandard housing.

These conditions are particularly acute for regular and seasonable farm workers and for the large migration of Southeast Asian refugees who have settled in Merced. In addition to providing decent and affordable housing, we must build the infrastructure that new housing developments require, and we need to maintain the bonding capacity.

A litmus test for the Federal housing program will be its responsiveness to locally defined housing needs of our low and moderate income residents in the small, rural, suburban, and urban counties.

In order to achieve this goal, an effective Federal delivery system must build on the experience and capacity of local governments. We need that in-house capacity if we are to maintain an investment in housing over time.

Counties not only administer Federal and State programs, but we also expand these strategies and create new ones. We use a range of financing techniques to produce low and moderate income housing.

For example, in Fairfax County, VA, they commit a whole range of financing techniques to produce low and moderate income housing. They are constructing and subsidizing single and multi-family dwellings.

As a component of its welfare reform package, Shelby County, TN has issued tax-exempt bonds to promote homeownership by low income single parents, and other counties dedicate revenue sources like real estate transfer taxes and condominium conversion fees for housing trust funds.

NACo supports the one-stop shopping concept under the HOME Corporation. Within it we envision a think tank that can serve as a reference on innovative programs and provide technical assistance. The latter function particularly would be useful to smaller localities that are building their housing capacity.

I am concerned that many counties that are CDBG entitlement jurisdictions now would not qualify as participating jurisdictions under HOP. If States receive 50 percent of the HOP formula funds, then the amount remaining for localities would be considerably less than under CDBG. Quite frankly, many localities would not qualify for the $2 million threshold allocation, particularly if HOP were not fully appropriated.

Coordination of community development and housing would be more cumbersome if urban counties receive a direct allocation for the former but not the latter. This would be contrary to the intent of the unified 5-year housing strategy as described in the legislation. That covers all Federal housing and community development programs.

I know this bill encourages some energetic jurisdictional cooperation through consortia; however, this option is limited to jurisdictions that individually qualify for formula allocations. We feel that this restriction—this limitation is too restrictive. I urge you to expand the option by which nonentitlement counties can qualify for direct allocations upon securing cooperative agreements with the municipalities within the county.

We are all working for the same cause. We need to have that kind of flexibility.

Cooperative efforts between the Federal Government, counties, cities, and the private sector makes sense. They are cost effective, and they work. Joint efforts will reduce the administrative costs, thereby freeing more resources for long-term investment in housing.

On the matching requirements of the legislation, NACo supports a State and local match of the Federal resources, with a special recognition for the poorest counties. We are prepared to work with you in making this program work.

We do have a concern with it, that it requires a 10-percent set-aside for some of the nonprofits. We believe there are other ways to address that problem. We fully anticipate working with them. We do so today in our county.

Groups such as Self-Help Enterprises in the San Joaquin Valley are key to affordable housing. They have a major role to play. We know it, and we are prepared to work together with all of the jurisdictions in making this bill work.

[The complete prepared statement of Ann Klinger follows:]

NATIONAL
ASSOCIATION
of
COUNTIES

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STATEMENT OF

THE HONORABLE ANN KLINGER

SUPERVISOR, MERCED COUNTY, CALIFORNIA

ON

THE NATIONAL AFFORDABLE HOUSING ACT

BEFORE THE

HOUSING AND URBAN AFFAIRS SUBCOMMITTEE

OF

THE SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

ON BEHALF OF

THE NATIONAL ASSOCIATION OF COUNTIES

WASHINGTON, DC

JUNE 6, 1989

GOOD MORNING MR. CHAIRMAN AND DISTINGUISHED MEMBERS OF THE SENATE HOUSING AND URBAN AFFAIRS SUBCOMMITTEE. I AM ANN KLINGER, PRESIDENT-ELECT OF THE NATIONAL ASSOCIATION OF COUNTIES*, AND SUPERVISOR FOR MERCED COUNTY, CALIFORNIA. I AM VERY PLEASED TO REPRESENT COUNTY OFFICIALS WHO APPLAUD YOUR LEADERSHIP IN REESTABLISHING NATIONAL HOUSING POLICY. WE ARE COMMITTED TO WORKING WITH YOU IN REFINING THE NATIONAL AFFORDABLE HOUSING ACT (S. 565).

MY TESTIMONY TODAY FOCUSES ON THE CRITICAL ROLE COUNTY GOVERNMENTS SHOULD PLAY IN A FEDERAL HOUSING PRODUCTION PROGRAM. TO ESTABLISH THE CONTEXT FOR MY REMARKS, LET ME BRIEFLY SKETCH THE RANGE OF COUNTIES THAT SHOULD BE PART OF THIS INTERGOVERNMENTAL EFFORT.

THERE ARE ROUGHLY 3,000 COUNTY GOVERNMENTS IN THE NATION. THE 58 CALIFORNIA COUNTIES VARY IN SIZE FROM ALPINE COUNTY WITH A POPULATION OF 1,300 TO LOS ANGELES COUNTY WITH 8,295,900 RESIDENTS. AS YOU KNOW, MR. CHAIRMAN, OUR STATE IS GROWING AT A

THE NATIONAL ASSOCIATION OF COUNTIES IS THE ONLY NATIONAL ORGANIZATION REPRESENTING COUNTY GOVERNMENT IN THE UNITED STATES. THROUGH ITS MEMBERSHIP, URBAN, SUBURBAN AND RURAL COUNTIES JOIN TOGETHER TO BUILD EFFECTIVE, RESPONSIVE COUNTY GOVERNMENT. THE GOALS OF THE ORGANIZATION ARE TO: IMPROVE COUNTY GOVERNMENT; SERVE AS THE NATIONAL SPOKESMAN FOR COUNTY GOVERNMENT; AS A LIAISON BETWEEN THE NATION'S COUNTIES AND OTHER LEVELS OF GOVERNMENT; ACHIEVE PUBLIC UNDERSTANDING OF THE ROLE OF COUNTIES IN THE FEDERAL SYSTEM.

RATE OF 300,000 NEW RESIDENTS EACH YEAR. THIS GROWTH IS OCCURRING LARGELY IN THE UNINCORPORATED AREAS WHICH ARE SERVED BY COUNTY GOVERNMENTS.

THE POPULATION OF MY COUNTY, MERCED, HAS INCREASED BY 23.2 PERCENT IN SEVEN YEARS. WE ARE GRAPPLING WITH WAYS TO HOUSE BOTH NEW AND LONG-TERM RESIDENTS. WE FACE PROBLEMS OF OVERCROWDING AND SUBSTANDARD HOUSING. THESE CONDITIONS PARTICULARLY ARE ACUTE FOR REGULAR AND SEASONAL FARMWORKERS AND A LARGE INFLUX OF SOUTHEAST ASIAN REFUGEES WHO HAVE SETTLED IN MERCED. IN ADDITION TO PROVIDING DECENT AND AFFORDABLE HOUSING, WE MUST BUILD THE INFRASTRUCTURE THAT NEW HOUSING DEVELOPMENTS REQUIRE.

A LITMUS TEST FOR A FEDERAL HOUSING PROGRAM WILL BE ITS RESPONSIVENESS TO LOCALLY DEFINED HOUSNG NEEDS OF LOW AND MODERATE INCOME RESIDENTS IN SMALL, RURAL, SUBURBAN AND URBAN COUNTIES. IN ORDER TO ACHIEVE THIS GOAL, AN EFFECTIVE FEDERAL DELIVERY SYSTEM MUST BUILD UPON THE EXPERIENCE AND CAPACITY OF LOCAL GOVERNMENTS.

HISTORICALLY, COUNTIES HAVE PARTICIPATED IN FEDERAL HOUSING PROGRAMS. OUR ADMINISTRATIVE TRACK RECORD COVERS PUBLIC HOUSING, SECTION 8 PRODUCTION AND RENTAL ASSISTANCE, FARMERS HOME ADMINISTRATION, SECTION 312, COMMUNITY DEVELOPMENT, RENTAL REHABILITATION AND HOUSING DEVELOPMENT GRANTS, URBAN HOMESTEADING AND OTHER PROGRAMS.

COUNTIES NOT ONLY ADMINISTER FEDERAL AND STATE PROGRAMS, BUT ALSO EXPAND THESE STRATEGIES AND CREATE NEW ONES. WE USE A RANGE OF FINANCING TECHNIQUES TO PRODUCE LOW AND MODERATE INCOME HOUSING. FOR EXAMPLE, FAIRFAX COUNTY, VIRGINIA COMMITS COUNTY GENERAL FUNDS TO CONSTRUCT AND SUBSIDIZE SINGLE AND MULTI-FAMILY DWELLINGS. AS A COMPONENT OF ITS WELFARE REFORM PACKAGE, SHELBY COUNTY, TENNESSEE ISSUED TAX-EXEMPT BONDS TO PROMOTE HOMEOWNERSHIP BY LOW INCOME SINGLE PARENTS. OTHER COUNTIES, DEDICATE REVENUE SOURCES LIKE REAL ESTATE TRANSFER TAXES AND CONDOMINIUM CONVERSION FEES FOR HOUSING TRUSTS FUNDS.

THESE AND OTHER LOCAL GOVERNMENT INITIATIVES ARE NOT ENOUGH. THE FEDERAL GOVERNMENT MUST REEMERGE AS A PARTNER IN PRODUCING AFFORDABLE HOUSING. S. 565 BEGINS TO PROVIDE AN EFFECTIVE FRAMEWORK. IT FORMALIZES A MAJOR FEDERAL FUNDING ROLE IN HOUSING WHILE ACKNOWLEDGING THE PREEMINENT ROLE OF LOCAL GOVERNMENTS AND AGENCIES IN DESIGNING AND PRODUCING AFFORDABLE HOUSING FOR LOW AND MODERATE INCOME PEOPLE.

NACo SUPPORTS THE ONE-STOP SHOPPING CONCEPT UNDERLYING THE HOME CORPORATION. WITHIN IT WE ENVISION A THINK TANK THAT COULD SERVE AS A REFERENCE ON INNOVATIVE PROGRAMS AND PROVIDE TECHNICAL ASSISTANCE. THE LATTER FUNCTION PARTICULARLY WOULD BE USEFUL TO SMALLER LOCALITIES THAT ARE BUILDING THEIR HOUSING CAPACITY. THE CREDIT ENHANCEMENT THAT THE HOME CORPORATION COULD PROVIDE IS ALSO A CRITICAL COMPONENT FOR LEVERAGING RESOURCES FOR HOUSING.

ALLOCATION OF FEDERAL HOUSING RESOURCES

THE HOUSING OPPORTUNITIES PARTNERSHIP PROGRAM IS CONCEPTUALLY SIMILAR TO THE DELIVERY SYSTEM NACo PROPOSED IN THE FALL OF 1987. I FEEL, HOWEVER, THAT THE ALLOCATION FORMULA DIRECTS A DISPROPORTIONATE AMOUNT OF HOP RESOURCES TO THE STATES INSTEAD OF LOCAL GOVERNMENTS. THIS IMBALANCE GOES AGAINST THE GOAL OF CREATING PROGRAMS THAT RESPOND TO LOCAL HOUSING NEEDS.

I BELIEVE THAT LOCAL GOVERNMENTS SHOULD RECEIVE THE BULK OF HOP FUNDS. WE KNOW LOCAL HOUSING MARKETS. COUNTY OFFICIALS INTERACT WITH THE REAL ESTATE INDUSTRY AND NONPROFIT DEVELOPERS REGULARLY, IF NOT DAILY. AS PART OF OUR LOCAL HOUSING PLANS, WE IDENTIFY THE TYPE OF HOUSING THAT IS MOST NEEDED IN OUR COMMUNITIES AND THE AVAILABILITY OF LAND. WE CAN ANTICIPATE WHAT FACTORS SHOULD BE TAKEN INTO ACCOUNT TO GAIN NEIGHBORHOOD ACCEPTANCE OF PROJECTS. IN ADDITION, SINCE WE HAVE POLICE POWER OVER ZONING, LAND USE AND OTHER REGULATORY ISSUES, COUNTY OFFICIALS HAVE AUTHORITY TO DEVELOP COMPREHENSIVE PLANS WHICH INCORPORATE INFRASTRUCTURE NEEDS AND REGULATORY CHANGES THAT ARE ESSENTIAL FOR HOUSING. COUNTY OFFICIALS HAVE THE EXPERTISE AND POLITICAL WILL TO PRODUCE HOUSING.

FURTHERMORE, THE WAY CALIFORNIA ADMINISTERS THE COMMUNITY DEVELOPMENT BLOCK GRANT SMALL CITIES PROGRAM HAS CAUSED ME ANGUISH. THE STATE'S PRIORITIZATION OF NEEDS IN ITS COMPETITIVE PROCESS DOES NOT FAIRLY RANK STATEWIDE HOUSING NEEDS. MY STAFF

ADVISES ME THAT WE RECEIVED MUCH BETTER ASSISTANCE AND RECOGNITION OF LOCAL HOUSING ISSUES FROM WASHINGTON WHEN HUD ADMINISTERED OUR SMALL CITIES PROGRAM THAN WE DO FROM CALIFORNIA.

A NACo COMMUNITY AND ECONOMIC DEVELOPMENT STEERING COMMITTEE RESOLUTION RECOMMENDS THAT 70 PERCENT OF HOP FUNDS BE ALLOCATED TO URBAN COUNTIES AND METROPOLITAN CITIES AND THE BALANCE TO THE STATES. DIRECTING THE BULK OF HOP FUNDS TO LOCAL GOVERNMENTS WOULD AVOID LAYERS OF BUREAUCRACY WHICH ENTAIL ADMINISTRATIVE COSTS AND IMPEDE LOCAL FLEXIBILITY. IF THIS FORMULA WERE ADOPTED, LOCALITIES RECEIVING DIRECT ALLOCATIONS SHOULD NOT BE PERMITTED TO RECEIVE ADDITIONAL HOP FUNDS FROM THEIR STATES. STATES, IN TURN, SHOULD NOT COUNT HOUSING NEEDS IN ENTITLEMENT LOCALITIES IN ASSESSING HOUSING CONDITIONS STATEWIDE.

I URGE YOU TO BUILD UPON THE CONCEPT OF AN URBAN COUNTY AS DELINEATED IN THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1974. S. 565 SPECIFICALLY SHOULD DEFINE AN URBAN COUNTY. THESE LOCALITIES HAVE PROVEN EFFECTIVE IN FOSTERING INTERGOVERNMENTAL COOPERATION AMONG SMALL MUNICIPALITIES AND IN PLANNING AND COORDINATING COMMUNITY DEVELOPMENT ACTIVITIES IN METROPOLITAN AREAS. THE HOP PROGRAM SHOULD FACILITATE USE OF THE STRUCTURAL CAPACITY THAT ALREADY EXISTS IN URBAN COUNTIES.

I AM CONCERNED THAT MANY COUNTIES THAT ARE CDBG ENTITLEMENT JURISDICTIONS WOULD NOT QUALIFY AS PARTICIPATING JURISDICTIONS

UNDER HOP. IF STATES RECEIVE 50 PERCENT OF HOP FORMULA FUNDS, THEN THE AMOUNT REMAINING FOR LOCALITIES WOULD BE CONSIDERABLY LESS THAN UNDER CDBG. MANY LOCALITIES WOULD NOT QUALITY FOR THE $2 MILLION THRESHOLD ALLOCATION, PARTICULARLY IF HOP WERE NOT FULLY APPROPRIATED. COORDINATION OF COMMUNITY DEVELOPMENT AND HOUSING WOULD BE MORE CUMBERSOME IF URBAN COUNTES RECEIVE A DIRECT ALLOCATION FOR THE FORMER BUT NOT THE LATTER. THIS COULD BE CONTRARY TO THE INTENT OF THE UNIFIED FIVE YEAR HOUSING STRATEGY, AS DESCRIBED IN THE LEGISLATION, WHICH COVERS ALL FEDERAL HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS.

S. 565 ENCOURAGES SOME INTER-JURISDICTIONAL COOPERATION THROUGH CONSORTIA. HOWEVER, THIS OPTION IS LIMITED TO JURISDICTIONS THAT INDIVIDUALLY QUALIFY FOR FORMULA ALLOCATIONS. I FEEL THIS LIMITATION IS TOO RESTRICTIVE. I URGE YOU TO EXPAND THE OPTION BY WHICH NON-ENTITLEMENT COUNTIES MAY QUALIFY FOR DIRECT ALLOCATIONS UPON SECURING COOPERATION AGREEMENTS FROM THE MUNICIPALITIES WITHIN THE COUNTY. COOPERATIVE EFFORTS BETWEEN THE FEDERAL GOVERNMENT, COUNTIES, CITIES AND THE PRIVATE SECTOR MAKE SENSE, ARE COST EFFECTIVE AND WORK. JOINT EFFORTS REDUCE ADMINISTRATIVE COSTS, THEREBY FREEING MORE RESOURCES FOR LONG-TERM INVESTMENTS IN HOUSING.

THE FORMULA FACTORS USED TO CALCULATE A LOCALITY'S ENTITLEMENT IS ANOTHER WAY TO ACHIEVE AN EQUITABLE DISTRIBUTION OF HOP RESOURCES. IN ADDITION TO THOSE FACTORS ENUMERATED IN THE BILL, THERE SHOULD BE AN AFFORDABILITY INDEX THAT MEASURES THE

RATIO OF HOUSING COSTS TO INCOME. THIS WOULD ADDRESS THE CHALLENGE FACING MANY SUBURBAN COUNTIES OF PROVIDING AFFORDABLE HOUSING FOR LOW INCOME PERSONS IN HIGH COST AREAS.

MATCHING REQUIREMENT

NACo SUPPORTS A STATE AND LOCAL MATCH OF FEDERAL RESOURCES. HOWEVER, THE MATCHING REQUIREMENT SHOULD NOT BE A BARRIER TO ENTRY, PARTICULARLY FOR LOCALITIES THAT ARE JUST BEGINNING TO DEVELOP THEIR HOUSING CAPACITY. IN ADDITION TO THE MATCHES LISTED IN S. 565, I FEEL LOCALITIES SHOULD BE ABLE TO SATISFY THE REQUIREMENT WITH PRIVATE SECTOR INVESTMENT IN AFFORDABLE HOUSING, INCLUDING SWEAT EQUITY, DEVELOPER EQUITY, PRIVATE TRUST FUND PARTICIPATION, AND POSSIBLY EVEN CONVENTIONAL DEBT FINANCING. JURISDICTIONS SHOULD RECEIVE CREDIT FOR THEIR EXERCISE OF LOCAL CONTROLS THAT AFFECT AFFORDABILITY INCLUDING ZONING, TAX ABATEMENT, INFRASTRUCTURE IMPROVEMENTS, AND REMOVAL OF STRUCTURAL IMPEDIMENTS.

STATES SHOULD BE REQUIRED TO ASSIST POORER COMMUNITIES SATISFY ANY MATCHING REQUIREMENTS, PERHAPS ON A FORMULA BASIS. THIS SHOULD FACILITATE STATEWIDE PARTICIPATION IN HOP.

SET-ASIDE FOR NONPROFIT DEVELOPERS

MERCED COUNTY HAS A GOOD WORKING RELATIONSHIP WITH NONPROFIT DEVELOPERS. I PARTICULARLY AM PROUD OF THE SUNRISE

SUBDIVISION AT PLANADA. THIS DEVELOPMENT IS LOCATED IN A SMALL RURAL COMMUNITY THAT CONSISTS OF SINGLE FAMILY DETACHED HOMES. THE COUNTY PROVIDES SELF-HELP ENTERPRISES WITH CDBG FUNDS TO PURCHASE LOTS AND CONSTRUCT HOUSES. IF LOW INCOME PEOPLE CANNOT AFFORD THE HOMES, THIS NONPROFIT DEVELOPER ARRANGES FOR PROSPECTIVE PURCHASERS TO BUY DOWN THE COST BY CONTRIBUTING SWEAT EQUITY.

ALTHOUGH NONPROFITS CERTAINLY SHOULD BE INCORPORATED INTO A JURISDICTIONS' HOUSING STRATEGY, WE ARE CONCERNED ABOUT THE REQUIRED 10 PERCENT SET ASIDE FOR THESE GROUPS. WE NEED TO BUILD UPON THE CAPACITY OF NONPROFITS IN THOSE AREAS WHERE THEY HAVE A POSITIVE TRACK RECORD. HOWEVER, REQUIRING JURISDICTIONS TO SET ASIDE FUNDS FOR 18 MONTHS MAY IMPEDE DEVELOPMENT THAT OTHERWISE COULD PROCEED. YOUR CONSTITUENTS AND MINE WHO DESPERATELY NEED HOUSING MAY NOT UNDERSTAND THE DELAY AND MAY BECOME IMPATIENT.

THE BILL SPECIFIES THAT AFTER THE 18 MONTH HOLDING PERIOD, HUD WOULD RECAPTURE THESE RESERVED FUNDS AND REALLOCATE ONE-HALF OF THEM TO NONPROFITS ELSEWHERE ON AN INCENTIVE BASIS. EACH LOCALITY IS UNIQUE. WE MUST BUILD UPON THE CAPACITY THAT EXISTS WITHIN EACH JURISDICTION. MANY 501(C)(3) NONPROFIT HOUSING CORPORATIONS HAVE DONE AND ARE DOING A GOOD JOB. SELF-HELP ENTERPRISES IS ONE GROUP THAT COMES TO MIND IN THE SAN JANQUIN VALLEY.

HOWEVER, TO BUILD INTO THE LAW A REQUIREMENT THAT WE

CREATE A CORPORATION OR FIND ONE IN ORDER TO RETAIN PART OF THE FUNDS DOES NOT BUILD UPON LOCAL CAPACITY. COUNTIES MAY ALREADY BE DOING THE JOB OR HAVE A MORE EFFECTIVE PLAN TO GENERATE LONG-TERM INVESTMENTS IN HOUSING. FUNDS SHOULD NOT BE RECAPTURED FROM A COMMUNITY ON THE BASIS OF NONPROFIT UTILIZATION SINCE THE LOCALITY HAD TO DOCUMENT A HOUSING NEED IN ORDER TO QUALIFY FOR ASSISTANCE IN THE FIRST PLACE.

AGAIN, I BELIEVE THAT WE SHOULD ENCOURAGE PARTICIPATION BY NONPROFIT DEVELOPERS. A JURISDICTION'S FIVE YEAR HOUSING STRATEGY SHOULD DOCUMENT HOW IT INTENDS TO MAXIMIZE USE OF NONPROFITS IN IMPLEMENTING THE PLAN.

THE FIVE YEAR STRATEGY ALSO IS THE APPROPRIATE VEHICLE FOR MONITORING COMPLIANCE WITH FAIR HOUSING LAWS. A JURISDICTION SHOULD BE REQUIRED TO AFFIRMATIVELY STATE WHAT ACTION IT WILL TAKE TO EXPAND HOUSING OPPORTUNITIES FOR MINORITIES, FAMILIES WITH CHILDREN AND DISABLED PERSONS.

IN CONCLUSION, I AM VERY PLEASED TO PARTICIPATE IN THE FORMATION OF LEGISLATION THAT IMPLEMENTS NEW NATIONAL HOUSING POLICY. COUNTY OFFICIALS FROM SMALL, RURAL, URBAN AND SUBURBAN COUNTIES ARE PREPARED TO ALIGN AND EXPAND OUR CAPACITY WITH ADDITIONAL FEDERAL RESOURCES IN ORDER TO PROVIDE DECENT AND AFFORDABLE HOUSING FOR OUR CITIZENS.

Senator CRANSTON. Thank you very, very much for some very helpful testimony. We appreciate it greatly.

Mr. Halpin.

STATEMENT OF PATRICK G. HALPIN, SUFFOLK COUNTY EXECUTIVE, HAUPPAUGE, NY

Mr. HALPIN. Thank you very much, Mr. Chairman, and members of the committee.

I am extremely pleased and honored to have this opportunity to express my views on the National Affordable Housing Act to this outstanding panel.

As Suffolk County Executive, representing 1.3 million people, which is now the largest suburban county in the State of New York, I have witnessed first hand the housing crisis and welcome the Federal Government's renewed interest in addressing this very serious problem.

Especially, I want to thank you, Mr. Chairman, and Senator D'Amato for your outstanding leadership on this critical national issue.

Suffolk County, like many suburban communities across this country, is at a crossroads. A generation of our young people is moving away and a generation of our seniors is barely holding on.

Since 1981, Suffolk has experienced a severe housing crunch. The median price of a house on Long Island is $186,000. The median household income on Long Island is $44,000. The income needed to purchase a typical home is in excess of $69,000.

If you look at it a little different way, the disparity is even more dramatic. The percentage increase in the cost of housing since 1981 has grown by more than 232 percent.

Typical family income since 1981 has gone up just 64 percent. The high cost of housing consistently ranks at the top of the list of reasons that businesses cite for moving off Long Island, and is responsible for stopping many new businesses from relocating on Long Island.

All of this of course points to the need for strong positive governmental action. In Suffolk, we are very proud that we are dking more to address the affordable housing crisis than any other county in the State of New York, and doing more than many other counties in this Nation.

For more than 50 years, the Federal Government set this Nation's housing policy. It provided the funding to build affordable housing for millions of Americans. But since 1981, the Federal Government has all but abandoned this effort, and States and localities, as a result, have been forced to take up the lead with new and innovative programs.

Therefore, Federal housing legislation should be built on the strengths of these new and innovative programs. That is the very essence of the proposal that you have put forward. It will close the gap between our desire and our ability to provide housing, by enabling local governments to broaden the types of housing programs available, and increase their availability to reach low- and moderate-income households.

And let me be very specific. The concept of the HOME Corporation as an entity within the Department of Housing and Urban Development will provide the one-stop support service for housing assistance that is a terrific idea. It is better than a terrific idea, it is an excellent idea.

It is essential, however, that the regulations governing the funds that the HOME Corporation makes available for various uses remain flexible, so that local governments might adopt programs to local requirements, and the local kind of innovation necessary to meet the unique needs of our given communities.

Recognizing that the affordable housing effort will require the cooperation and the financial resources of all levels of government, we strongly support, and are willing to provide the 25-percent matching required by the act, by leveraging the financial resources coming from the Federal Government and the State government, and our local governments, as well as the private sector. Obviously, we will be able to do much more.

Meeting the requirement will not be a problem, since the legislation is written in a way that will allow us to offer valuable staff time and waiver of fees and a transfer of land as part of our local contribution.

I recommend that, given the nature of many of the affordable housing programs, which use a considerable amount of private dollars these days, you ought to broaden the allowed eligibility requirements to include private equity and investment. This would allow counties like ours to work closely with the private not-for-profit groups, such as the new group that has been established just 2 years ago, the Long Island Housing Partnership, in providing more affordable housing in the suburbs.

I do have one concern, though. The proposed 50–50 split of resources between local governments and the State gives me pause. Adopting a split similar to the 70–30 formula, which is utilized in the distribution of community development block grants, would be more cost-effective in my opinion, since new entities at the State level would not have to be created and the programs could be administered directly by local governments.

One extremely positive proposal I am pleased to see that has been incorporated in this proposed legislation would permit first-time home buyers to apply the IRA, the 401K retirement balances to their downpayments. In high-cost communities like Suffolk, the problem of young first-time home buyers, the problem that they face is that the gap between their savings and home sale prices is simply too wide.

While these families are safe enough financial risks to qualify for a bank loan, usually amounting to two-and-a-half times their yearly incomes, they cannot afford the downpayment necessary to balance the difference between the bank mortgage and the actual cost of the home.

Indeed, I also recommend that parents of first-time home buyers be allowed to withdraw without any penalty a portion of their tax-free accounts to help fund the downpayments of a child's first home. We call that the GI program. It is not the old veterans' program; it is called the "good in-law program." [Laughter.]

This provision would greatly enhance the ability of a young family to purchase a home.

Another form of assistance that would be particularly beneficial to high-cost areas like Suffolk County is the one that would raise the FHA mortgage ceiling to 95 percent of the median income, because the FHA has simply not kept pace with the high cost of housing in growing suburban communities like Suffolk and communities that you have out in California.

Finally, Senators, we very much welcome the provisions of the act that would combine several homeless housing programs into one block grant distributed by formula to local and State governments. The so-called affluent suburbs are not immune from the growing homeless crisis that we have in this country. That single block grant would allow us to develop more efficient and effective homeless housing programs in our community.

You know, the modern American suburb was born on Long Island, when William Levitt erected tracts of affordable single-family homes which World War II veterans bought with GI loans. For that generation of Long Islanders, it represented the realization of the American dream, owning a home of their own.

Today, a new generation, my generation, is facing a very sober reality. Within one generation, Long Island has lost its ability to offer young people a chance to live the American dream. For tens of thousands of young people, the desperate search for affordable housing is forcing them to leave their island. After we have educated them and we have trained them and we have invested in them, we are losing our best and brightest young people, because of the lack of affordable housing.

Your legislation, the National Affordable Housing Act, seeks to help this new generation realize their American dream, the same dream that their parents saw realized because of a progressive Federal Government. And now, for the first time in more than a decade, there are those of us who believe that the American dream, the dream of owning a home, in part with the help of the Federal Government, is not going to die, because of this legislation you have put forward.

Thank you very much for giving me the opportunity to address you today.

[The complete prepared statement of Patrick G. Halpin follows:]

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TESTIMONY OF PATRICK G. HALPIN
SUFFOLK COUNTY EXECUTIVE
SENATE BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
JUNE 6, 1989

MR. CHAIRMAN, AND MEMBERS OF THE COMMITTEE, I AM PLEASED AND HONORED TO HAVE THIS OPPORTUNITY TO EXPRESS MY VIEWS REGARDING THE "NATIONAL AFFORDABLE HOUSING ACT" TO THIS DISTINGUISHED PANEL. AS SUFFOLK COUNTY EXECUTIVE -- REPRESENTING 1.3 MILLION PEOPLE IN THE LARGEST SUBURBAN COUNTY IN NEW YORK STATE -- I HAVE WITNESSED FIRST HAND AMERICA'S HOUSING CRISIS AND WELCOME THE FEDERAL GOVERNMENT'S RENEWED INTEREST IN ADDRESSING THIS PROBLEM.

I ESPECIALLY WISH TO THANK SENATORS D'AMATO AND CRANSTON FOR THEIR LEADERSHIP ON THIS CRITICAL NATIONAL ISSUE, AND FOR INVITING ME TO TESTIFY TODAY.

THE LACK OF AFFORDABLE HOUSING IN SUFFOLK COUNTY IS A PROBLEM WHICH AFFECTS THE LIVES OF VIRTUALLY EVERY CITIZEN; JEOPARDIZING OUR REGION'S ECONOMIC HEALTH, DIMINISHING OUR QUALITY OF LIFE, AND THREATENING OUR FUTURE.

SUFFOLK COUNTY REMAINS A CLASSIC AMERICAN SUCCESS STORY---A PLACE WHERE HUNDREDS OF THOUSANDS OF SINGLE-FAMILY HOMES ARE FILLED WITH HARDWORKING PEOPLE WHO TAKE GREAT PRIDE IN HOMEOWNERSHIP AND THEIR COMMUNITIES.

BUT WE ARE A COUNTY AT A CROSSROADS. A GENERATION OF OUR YOUNG PEOPLE IS MOVING AWAY AND A GENERATION OF OUR SENIORS IS BARELY HOLDING ON.

SINCE 1981, ABOUT THE TIME THE FEDERAL GOVERNMENT SEVERELY REDUCED ITS HOUSING PROGRAMS, SUFFOLK HAS EXPERIENCED A SEVERE HOUSING CRUNCH. THE COST OF HOUSING INCREASED BY 232% YET MEDIAN FAMILY INCOME INCREASED BY JUST 64%.

A STATISTICAL PROFILE OF THE SUFFOLK COUNTY HOUSING MARKET REVEALS THE FOLLOWING:

MEDIAN PRICED HOUSE ON L.I. ----- $186,000
MEDIAN HOUSEHOLD INCOME ON L.I. ----- $44,000
INCOME NEEDED TO PURCHASE MEDIAN PRICE HOUSE ----- $69,000
APPROXIMATE RENT PER MONTH FOR A FAMILY OF 3 ----- $700

THE PRICE OF A SINGLE-FAMILY HOME HAS ESCALATED TO THE POINT WHERE MOST YOUNG MARRIED COUPLES CAN NOT AFFORD A HOME. THE SHORTAGE OF AFFORDABLE RENTAL HOUSING FOR FAMILIES AND SENIORS HAS INCREASED MONTHLY RENTAL PAYMENTS BEYOND THE MEANS OF TOO MANY CITIZENS.

THE 1980 CENSUS SHOWED THAT SUFFOLK COUNTY HAD THE LARGEST CONCENTRATION OF 10 TO 20 YEAR OLDS IN NEW YORK STATE OUTSIDE OF NEW YORK CITY. MANY IN THE OLDER SEGMENT OF THAT GROUP ARE OPTING TO LEAVE THE REGION BECAUSE OF HOUSING COSTS.

AND UNLESS SOMETHING IS DONE, MANY MORE WILL LEAVE IN THE NEXT FEW YEARS.

JOINING THIS MINI-EXODUS ARE BUSINESSES, ACUTELY AWARE THAT THEIR WORKERS CANNOT AFFORD TO LIVE ON LONG ISLAND. HIGH HOUSING COSTS CONSISTENTLY RANK AT THE TOP OF THE LIST OF REASONS THAT BUSINESSES CITE FOR MOVING OFF THE ISLAND AND THE COSTS ARE RESPONSIBLE FOR KEEPING MANY NEW BUSINESSES FROM RELOCATING HERE.

THOSE WHO ARE HURT FIRST AND HARDEST BY THE HOUSING CRISIS ARE THE WORKING POOR. AS A RESULT, OUR SEEMINGLY-AFFLUENT COUNTY IS FACING A REAL AND GROWING HOMELESS PROBLEM.

THE NUMBER OF HOMELESS FAMILIES HAS DOUBLED IN THE LAST FOUR YEARS. A GROWING NUMBER OF "WORKING POOR" ARE USING EMERGENCY HOUSING. THESE PEOPLE WITH INCOMES ABOVE PUBLIC ASSISTANCE LEVELS, BUT WHO ARE EARNING LESS THAN $25,000 PER YEAR ARE ALWAYS IN A PRECARIOUS FINANCIAL SITUATION. ANY FINANCIAL STRESS OR FAMILY PROBLEM CAN QUICKLY RESULT IN EVICTION. THE COUNTY'S DEPARTMENT OF SOCIAL SERVICES ESTIMATES THAT IT WOULD COST A FAMILY OF FOUR, WITH BROKERS FEE, SECURITY AND FIRST MONTH'S RENT, $3,000 TO FIND AND MOVE INTO A NEW APARTMENT.

MIDDLE INCOME AND AFFLUENT HOMEOWNERS FEEL THE NEGATIVE AFFECTS OF THE HOUSING CRUNCH IN THEIR PROPERTY TAX BILL. LONG ISLAND, IT IS ESTIMATED, IS HOME TO 100,000 ILLEGAL APARTMENTS IN SINGLE FAMILY HOMES. THESE ILLEGAL CONVERSIONS ARE NOT REPRESENTED ON THE TAX ROLLS.

ALL OF THIS, OF COURSE, POINTS TO THE NEED FOR STRONG POSITIVE GOVERNMENTAL ACTION. IN SUFFOLK COUNTY WE ARE PROUD TO BE DOING MORE TO SOLVE THE AFFORDABLE HOUSING CRISIS THAN ANY OTHER COUNTY IN NEW YORK STATE. THE COUNTY IS ADDRESSING THIS CRISIS DESPITE THE SEVERE CONSTRAINTS OF NEW YORK STATE'S CONSTITUTION WHICH PROHIBITS THE COUNTY FROM DIRECTLY USING ITS ASSETS OR INCURRING DEBT TO BUILD HOUSING.

WE HAVE DEVELOPED A "FAST TRACKING PROGRAM". UNDER THIS PROGRAM SUFFOLK COUNTY PROMOTE'S AFFORDABLE HOUSING BY AGREEING TO EXPEDITE A BUILDER'S PLANS FOR A HOUSING SUBDIVISION THROUGH VARIOUS COUNTY AGENCIES SUCH AS HEALTH AND SEWERS. IN RETURN FOR THIS EXPEDITED REVIEW PROCESS, A BUILDER MUST AGREE TO PROVIDE 20% OF THE UNITS AS AFFORDABLE HOUSING. AFFORDABLE UNITS MUST SELL FOR UNDER $100,000 WHICH, UNFORTUNATELY, IS CONSIDERED AFFORDABLE ON LONG ISLAND.

THIS NEW PROGRAM WORKS BECAUSE AN EXPEDITIOUS REVIEW PROCESS HAS RESULTED IN SUBSTANTIAL SAVINGS FOR DEVELOPERS WHO ARE WILLING TO PASS PART OF THESE SAVINGS ALONG TO THE HOMEOWNER IN THE FORM OF LOWER HOUSING PRICES. LAST YEAR THROUGH FAST TRACKING, THE COUNTY PROCESSED DEVELOPMENTS THAT WILL CREATE 167 AFFORDABLE HOMES. THE COUNTY IS PRESENTLY CONSIDERING APPLICATIONS TO CREATE AN ADDITIONAL 700 UNITS.

ANOTHER EFFORT WE ARE PROUD TO HAVE INITIATED IS OUR LAND TRANSFER PROGRAM. LAST YEAR, AS A RESULT OF THIS PROGRAM, WE PROVIDED OVER 150 COUNTY-OWNED PARCELS WORTH $10 MILLION TO OUR TOWNS FOR AFFORDABLE EFFORTS. WORKING WITH NONPROFIT ORGANIZATIONS LIKE THE LONG ISLAND HOUSING PARTNERSHIP, THE NATION'S FIRST SUBURBAN PUBLIC/PRIVATE HOUSING PARTNERSHIP, WE ARE CREATING AFFORDABLE HOUSING BY ELIMINATING THE COST OF LAND AND BY STREAMLINING THE BUILDING PROCESS.

THE PROGRAM IS A GENUINE PUBLIC/PRIVATE PARTNERSHIP WHICH INVOLVES THE EFFORTS OF THE STATE, COUNTY, TOWNS, BANKS AND THE CONSTRUCTION INDUSTRY.

FOR EXAMPLE, UNDER THE "PARTNERSHIP FOR NEW HOMES PROGRAM" SUFFOLK COUNTY DONATES LAND TO THE TOWN IT HAS ACQUIRED THROUGH TAX DEFAULTS. THE TOWN IN TURN SELLS IT TO THE LONG ISLAND HOUSING PARTNERSHIP FOR $1. THE STATE PROVIDES CONSTRUCTION AND WRITEDOWN GRANTS FOR THE CONSTRUCTION OF THE NEW HOME. PARTICIPATING BANKS GIVE COST EFFECTIVE FLEXIBLE FINANCING AND SEVERAL HOME BUILDERS ARE CONSTRUCTING THESE HOMES AT REDUCED PROFITS.

THE RESULTS HAVE BEEN TERRIFIC, AS PROVEN BY THE TALE OF TWO LONG ISLAND FAMILIES:

ONE COUPLE IS NOW LIVING IN A NEW HOME IN CENTRAL ISLIP. HE IS A 23-YEAR-OLD VETERAN, WHO WORKS AS AN ELECTRONICS TECHNICIAN EARNING ABOUT $20,000 ANNUALLY. HIS WIFE, A BANK TELLER, EARNS IN THE LOW TEENS, MAKING THEIR COMBINED INCOME IN THE LOW TO MID 30s.

THE PARTNERSHIP CONTRACTED WITH A BUILDING FIRM TO CONSTRUCT A HOME DURING ITS OFF SEASON ON PROPERTY THE COUNTY ACQUIRED THROUGH DELINQUENT TAXES AND TRANSFERRED TO THE TOWNS. THE COUPLE PURCHASED THE HOME FOR $66,189. THEY PUT 5% DOWN ON A 9% 30 YEAR MORTGAGE, PAYING $870 PER MONTH INCLUDING TAXES AND INSURANCE.

THE HOME THE PARTNERSHIP BUILT IS BEAUTIFUL. ITS A RANCH HOME WITH 3 BEDROOMS, ONE AND HALF BATHROOMS, AND A GARAGE.

ANOTHER COUPLE WITH A SIX-MONTH-OLD GIRL HAS JUST MOVED INTO A PARTNERSHIP HOME IN BRENTWOOD. IN THIS CASE, THEY WERE BOTH COLLEGE-EDUCATED. SHE WORRIED THAT QUITTING HER JOB AS AN INSURANCE CLAIMS AGENT TO CARE FOR THE NEW BABY WOULD END THEIR DREAM OF OWNING A NEW HOME. NOW SHE REPORTS THAT WHILE THEY WILL STRUGGLE FOR THE FIRST YEAR ON HER HUSBAND'S SALARY AS A PAINTER, THE FUTURE WILL BE VERY BRIGHT ONCE SHE IS ABLE TO RETURN TO WORK.

TO IMPROVE THE CONDITION OF THE COUNTY'S EXISTING HOUSING STOCK, WE ARE USING SEVERAL HOUSING REHABILITATION PROGRAMS. SUFFOLK COUNTY, ITS PARTICIPATING MUNICIPALITIES AND LOCAL BANKS HAVE JOINED TO USING FEDERAL COMMUNITY DEVELOPMENT BLOCK GRANTS AND NEW YORK STATE FUNDS TO STRUCTURE LOW INTEREST HOME IMPROVEMENT LOANS FOR LOW AND MODERATE INCOME SENIORS AND FAMILIES.

SUFFOLK COUNTY ALSO MAKES FEDERAL REHABILITATION PROGRAM FUNDS AVAILABLE AS A DEFERRED LOAN TO LANDLORDS WANTING TO CORRECT CODE VIOLATIONS AND GENERALLY ENHANCE THEIR RENTAL PROPERTY. LANDLORDS ARE REQUIRED TO MATCH THE COUNTY'S CONTRIBUTION AND KEEP THE RENTAL UNITS AFFORDABLE FOR 10 YEARS.

WHAT WE HAVE PROVEN IN SUFFOLK COUNTY IS THAT GOVERNMENT CAN AND MUST MAKE AFFORDABLE HOUSING A REALITY. AS A COUNTY, HOWEVER, WE LACK AN ABUNDANCE OF RESOURCES, SAVE FOR DETERMINATION AND INGENUITY, SO WHILE OUR COMMITMENT IS TOTAL, OUR ABILITY IS LIMITED.

FOR 50 YEARS THE FEDERAL GOVERNMENT SET THIS NATION'S HOUSING POLICY. IT PROVIDED FUNDING TO BUILD AFFORDABLE HOUSING FOR MILLIONS OF AMERICANS. SINCE 1981, THE FEDERAL GOVERNMENT HAS ALL BUT ABANDONED THIS EFFORT, AND IN ITS ABSENCE NEW HOUSING DELIVERY SYSTEMS HAVE EMERGED, BECAUSE STATES AND LOCALITIES HAVE BEEN FORCED TO TAKE THE LEAD.

THEREFORE, FEDERAL HOUSING LEGISLATION SHOULD BUILD UPON THE STRENGTHS OF THESE NEW LOCAL PROGRAMS. THAT IS THE ESSENCE OF MUCH OF THE NATIONAL AFFORDABLE HOUSING ACT. IT WILL CLOSE THE GAP BETWEEN OUR DESIRE AND ABILITY TO PROVIDE HOUSING BY ENABLING LOCAL GOVERNMENTS TO BROADEN THE TYPES OF HOUSING PROGRAMS AVAILABLE, AND INCREASE THEIR ABILITY TO REACH LOW AND MODERATE INCOME HOUSEHOLDS.

THE CONCEPT OF THE HOME CORPORATION AS AN ENTITY, WITHIN THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, THAT WILL PROVIDE ONE STOP SUPPORT SERVICE FOR HOUSING ASSISTANCE, IS AN EXCELLENT CONCEPT. IT IS SIMILAR TO THE EFFORTS SUFFOLK HAS UNDERTAKEN IN ITS FAST TRACKING PROGRAM, WHEREBY WE STREAMLINE THE REVIEW PROCESS RELATING TO THE CREATION OF AFFORDABLE HOUSING.

IT IS ESSENTIAL THAT THE FUNDS THE HOME CORPORATION MAKES AVAILABLE FOR VARIOUS USES REMAIN FLEXIBLE, SO THAT THE COUNTY MAY ADOPT PROGRAMS TO LOCAL REQUIREMENTS AND PROMOTE INNOVATION NECESSARY TO MEET THE UNIQUE NEEDS OF OUR COMMUNITIES.

RECOGNIZING THAT THE AFFORDABLE HOUSING EFFORT WILL REQUIRE THE COOPERATION AND RESOURCES OF ALL LEVELS OF GOVERNMENT, SUFFOLK SUPPORTS, AND IS WILLING TO MEET THE 25% MATCHING REQUIREMENT OF THE ACT. MEETING THIS REQUIREMENT WILL NOT BE A PROBLEM AS THE LEGISLATION IS PRESENTLY WRITTEN BECAUSE IT ALLOWS SUFFOLK COUNTY TO OFFER THE VALUE OF STAFF TIME, THE WAIVER OF FEES, AND THE TRANSFER OF LAND AS PART OF OUR CONTRIBUTION.

I RECOMMEND THAT GIVEN THE NATURE OF MANY AFFORDABLE HOUSING PROGRAMS WHICH USE CONSIDERABLE AMOUNTS OF PRIVATE DOLLARS, THE SUBCOMMITTEE SHOULD BROADEN ALLOWED ELIGIBLE MATCHING REQUIREMENTS TO INCLUDE PRIVATE EQUITY AND INVESTMENT.

IN REVIEWING THE SECTION REGARDING PARTICIPATING JURISDICTIONS AND ALLOCATION OF RESOURCES, I AM SOMEWHAT CONCERNED ABOUT THE DISTRIBUTION OF FUNDS AMONG STATES AND LOCALITIES.

THE FORMULA STATED IN THE LEGISLATION PROVIDES TOO LARGE A PERCENTAGE OF FUNDS TO STATE GOVERNMENTS AND AS A RESULT AN INSUFFICIENT AMOUNT WOULD BE DIRECTLY ALLOCATED TO LOCAL GOVERNMENTS. ALTHOUGH SOME STATES HAVE DEVELOPED HOUSING PROGRAMS, IT IS THE COUNTIES AND CITIES, AS THE LEVEL OF GOVERNMENT CLOSEST TO THE PEOPLE, THAT CAN BETTER ADDRESS THE AFFORDABLE HOUSING ISSUES.

AS AN ENTITLEMENT COMMUNITY RECEIVING COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS, SUFFOLK COUNTY HAS BEEN AN ACTIVE PARTICIPANT WITH ITS LOCAL MUNICIPALITIES IN THE PROVISION OF AFFORDABLE HOUSING. SUFFOLK COUNTY WOULD PREFER TO SEE AN ALLOCATION FORMULA SIMILAR TO THE COMMUNITY DEVELOPMENT BLOCK GRANT ALLOCATION, WHEREBY 70% OF THE FUNDS WOULD COME DIRECTLY TO CITIES AND COUNTIES AND STATE GOVERNMENTS WOULD RECEIVE 30% OF THE FUNDS.

COUNTY GOVERNMENTS WOULD FORM CONSORTIUMS WITH THE SMALLER MUNICIPALITIES WITHIN THEIR JURISDICTION FOR THE PURPOSES OF RECEIVING AN ALLOCATION. BY BUILDING UPON EXISTING CAPABILITIES OF COUNTIES AND CITIES THAT ARE PRESENTLY PROVIDING COMMUNITY DEVELOPMENT AND HOUSING, A MORE COST EFFECTIVE STRUCTURE WILL BE CREATED, THEREFORE AVOIDING THE CREATION OF NEW ENTITIES AT THE STATE LEVEL TO ADMINISTER AFFORDABLE HOUSING PROGRAMS IN OUR COMMUNITIES AND NEIGHBORHOODS.

OVERALL, HOWEVER, THE HOUSING OPPORTUNITY PARTNERSHIP REPRESENTS A VITAL SOURCE OF FUNDS THAT WILL ALLOW OUR PUBLIC/PRIVATE PARTNERSHIPS TO EXPAND THEIR PRODUCTION OF NEW HOUSING. SPECIFICALLY, HOP WILL ENABLE SUFFOLK COUNTY TO REDUCE SITE IMPROVEMENT EXPENSES SUCH AS ROADS, SEWERS AND CONDEMNED STRUCTURE REMOVAL THAT WILL BE REFLECTED IN THE PRICE OF THE HOME THAT ELIGIBLE LOW AND MODERATE INCOME BUYERS WILL PURCHASE.

ONE SIMPLE, BUT EXTREMELY POSITIVE, PROPOSAL I AM PLEASED TO SEE INCORPORATED INTO THE BILL IS TO PERMIT FIRST TIME HOMEBUYERS TO APPLY IRA OR 401(K) RETIREMENT BALANCES TOWARDS THEIR DOWN PAYMENTS.

IN HIGH COST SUBURBAN COMMUNITIES, LIKE SUFFOLK COUNTY, THE PROBLEM YOUNG FIRST TIME HOMEBUYERS FACE IS THAT THE GAP BETWEEN THEIR SAVINGS AND HOME SALES PRICE IS TOO WIDE. WHILE THESE FAMILIES ARE A SAFE ENOUGH FINANCIAL RISK TO QUALIFY FOR A BANK MORTGAGE LOAN, USUALLY AMOUNTING TO 2 1/2 TIMES THEIR YEARLY INCOMES, THEY CANNOT AFFORD THE DOWNPAYMENT NECESSARY TO BALANCE THE DIFFERENCE BETWEEN THE BANK MORTGAGE AND THE COST OF THE HOME.

IRAs AND 401(K)s GREATLY ENHANCE THE ABILITY OF HOMEBUYERS TO SAVE FOR A DOWNPAYMENT. INDEED, I RECOMMEND THAT PARENTS OF FIRST TIME HOMEBUYERS BE ALLOWED TO WITHDRAW WITHOUT PENALTY A PORTION OF THEIR TAX-DEFERRED ACCOUNTS TO HELP FUND THE DOWNPAYMENT OF A CHILD'S FIRST HOME.

ANOTHER FORM OF ASSISTANCE THAT WILL BE PARTICULARLY BENEFICIAL TO HIGH COST AREAS OF SUFFOLK COUNTY IS THE PROVISION IN THIS LEGISLATION THAT WOULD INCREASE THE FHA MORTGAGE CEILING TO 95% OF THE MEDIAN SALES PRICE OF THE AREA.

SUFFOLK COUNTY WELCOMES THE PROVISIONS OF THE ACT THAT WOULD COMBINE SEVERAL HOMELESS HOUSING PROGRAMS INTO ONE BLOCK GRANT TO BE DISTRIBUTED BY FORMULA TO STATE AND LOCAL GOVERNMENTS.

PRESENTLY, COUNTY AGENCIES ARE FRUSTRATED BY THE COMPETING GRANT PROCESS. WITH OVER 4,000 PLACEMENTS INTO COUNTY SHELTERS, MY AGENCIES COMPLAIN THAT TOO MUCH TIME IS SPENT ON PAPER WORK AND THAT LONG-TERM PLANNING IS IMPOSSIBLE.

A SINGLE GRANT WOULD ALLOW SUFFOLK TO PERFORM ITS HOMELESS PROGRAMS IN A MORE EFFECTIVE AND EFFICIENT MANNER. FURTHERMORE, THE ADDITIONAL REVENUE THAT I BELIEVE WOULD BE PROVIDED BY A SINGLE FORMULA DERIVED GRANT COULD BE USED TO CONSTRUCT TRANSITIONAL HOUSING, HELPING US TO END THE USE OF WELFARE HOTELS.

FINALLY, YET ANOTHER POSITIVE PROPOSAL INCLUDED IN THE BILL IS THE EXPANSION OF THE MORTGAGE REVENUE BOND AND MORTGAGE CERTIFICATE PROGRAMS WHICH PROVIDE A REVENUE SOURCE TO THE STATE OF NEW YORK MORTGAGE AGENCY (SONYMA) WHICH PROVIDES LOW INTEREST LOANS TO HOMEBUYERS.

ACCORDING TO SONYMA, SUFFOLK COUNTY RESIDENTS ARE AMONG THE MOST ACTIVE PARTICIPANTS IN THE PROGRAM. IN ADDITION, SONYMA MORTGAGES ARE A VITAL LINK IN ALMOST ALL OF THE COUNTY'S AFFORDABLE HOUSING PROGRAMS.

THE MODERN AMERICAN SUBURB WAS BORN ON LONG ISLAND WHEN WILLIAM LEVITT ERECTED TRACTS OF AFFORDABLE SINGLE FAMILY HOMES WHICH WORLD WAR II VETERANS BOUGHT WITH V.A.-FINANCED LOANS. FOR THAT GENERATION OF VETERANS, LONG ISLAND REPRESENTED THE REALIZATION OF A DREAM -- TO OWN A HOME OF THEIR OWN WHERE THEY COULD RAISE A FAMILY.

TODAY A NEW GENERATION, MY GENERATION, IS FACING A MORE SOBER REALITY. BECAUSE WITHIN JUST ONE GENERATION LONG ISLAND HAS LOST ITS ABILITY TO OFFER YOUNG PEOPLE A CHANCE TO LIVE THE AMERICAN DREAM. FOR TENS OF THOUSANDS OF YOUNG PEOPLE THE DESPERATE SEARCH FOR AFFORDABLE HOUSING IS FORCING THEM TO LEAVE LONG ISLAND.

THE NATIONAL AFFORDABLE HOUSING ACT SEEKS TO HELP THIS NEW GENERATION ACCESS THE AMERICAN DREAM. NOW, FOR THE FIRST TIME IN NEARLY A DECADE, SUFFOLK COUNTY HAS REASON TO BELIEVE THAT THE FEDERAL GOVERNMENT WILL NOT ALLOW THAT DREAM TO DIE.

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Senator CRANSTON. Thank you.

The testimony of the Governors has suggested that local housing strategies within a State should be submitted as a package by the State. What is your assessment of that proposal? Are there any provisions for cooperation between the States and localities that should be required by law?

Any one of you can answer that.

Mayor KOCH. Our program in the city is so large that it dwarfs any State involvement, but we are very pleased that the State is involved, and particularly with a place that we call Mary Burke City, where the money that we received in lieu of taxes—it is a State project—those dollars are going into our housing program.

But we think we have the competence and the expertise not to be mandated to submit joint plans, but that we on a voluntary basis would work with the State. But we would not want to be mandated.

Senator CRANSTON. Ann?

Ms. KLINGER. The 5-year housing plan is to have a strategy, not to be a plan put on a shelf and not looked at again. To do that, we need to have a working relationship with the nonprofits, with the State, and with everyone, just to develop a system that works and makes sense, so that we can get on about this issue and have a good outcome.

For that, I believe there has to be cooperation evident in the plan at State, local, and among all the jurisdictions, including private development, the private side. That plan should take care of the problem.

I doubt that a mandate would be required. Simply reasonably addressed strategies, real strategies, will solve that issue.

Senator CRANSTON. I am pleased that several of you have expressed support for the HOME Corporation concept. What would be the consequences if instead we chose to implement a new housing strategy through existing offices in HUD, such as sending out funds by formula through the community development block grants, and providing all Federal credit enhancements through FHA and Ginnie Mae?

Ms. KLINGER. In lieu of the HOME Corporation?

Senator CRANSTON. Yes, it would be in lieu of the HOME Corporation.

Ms. KLINGER. We need to build on all of the other institutions that you have just mentioned. Farmers Home has a real role to play. All of those agencies have a tremendous role to play, but we need the one-stop shopping. We need to have a place to go so, quite frankly, it is clear what the Federal purpose and policy really is in this country relating to housing.

We need the sustained interest over time. We must not slip back as we have done in the last few years. For that I believe a HOME Corporation would protect our investment for the future.

Senator CRANSTON. Yes, Ed?

Mayor KOCH. My expert, Abe Biderman—and he really is an expert—says it is really not a critical area of need, so long as the formula, the 70-30 formula, which obviously we are for, were in place. The other is not required.

Senator CRANSTON. Do you feel that having the HOME Corporation as one place to go to get an answer is useful?

Mayor KOCH. Useful, but not critical.

Senator CRANSTON. Would your communities benefit from having your strongest programs turned into national models that other jurisdictions could adopt or adapt for their own use? Would that be helpful?

Mr. HALPIN. Absolutely, Senator. One of the things that has happened in the last 8 years with the loss of Federal funds is, we have had to become very creative. That has been a very, very positive development. So building upon that creativity and that innovation that we have seen occur across America in developing those international models, we are really going to benefit from that.

Senator CRANSTON. Ann?

Ms. KLINGER. We need national models for all sizes of jurisdictions. As you know, in California, we have Alpine with 1,300 population, and LA with 8.3 million and going up daily. So we really need to be sure that, as we are designing a program nationally, that all of the needs are met.

Mayor VOINOVICH. Senator, also I think that you see in many States people kind of floundering around and trying to reinvent the wheel. And again, if the States were more involved and could share that information with their political subdivisions, that would go a long way to eliminating a lot of problems.

A lot of communities have got the resources, they just do not know how to put the package together. And with State involvement, I think you are going to see a lot more initiative in a lot of communities that are not really involved as many ours are.

Senator CRANSTON. Thanks very much. I have a number of other questions, but I had better submit them in writing, because we are getting into a time problem.

I do want to urge that you do what you can. Two of you have national responsibilities and organizations. All of you can have great input. Do what you can to see that we get support for sound legislation, and do what you can in the next few week because we will be doing the key work on this committee during that time.

Senator CRANSTON. Al, do you have any questions?

Senator D'AMATO. Yes. Thank you, Mr. Chairman.

I would imagine, given the diversity of representation that we see at the table, Mr. Chairman, that our representatives from local governments, from large cities, from the counties, from the smaller cities, would have different views as to what they think the most critical or the best aspect of this legislation is.

So if they would want to comment, what do you think is most important as it relates to the bill that Senator Cranston and I have cosponsored?

Mayor KOCH. Money. [Laughter.]

Senator CRANSTON. Mr. Riley?

Mayor RILEY. Money, and flexibility, because each community is different. And that is the key element, the flexibility of getting as many actors involved, rather than the Federal Government thinking that there is one solution that is applicable everywhere. But it is the money and the investment, that is something without which we cannot get involved in the program.

Ms. KLINGER. An effective framework, so there can really be a Federal policy and a true partnership among all sectors of the community, must go with the dollars, regardless of how many dollars there are to spend.

Senator D'AMATO. Flexibility, as the mayor indicated.

Mayor VOINOVICH. Money, flexibility, and I think partnership. I would like to emphasize partnership, because there are a lot of players on the table. The foundations, the nonprofits, your private corporations. You will be hearing later on testimony from Richard Shatten, who is president and executive director of the Cleveland Tomorrow group. We have got 50 corporations that are involved in housing who heretofore had nothing to do with housing.

So what we are doing, as I said in my testimony, is galvanizing all our resources to deal with the problem that we have. I think we have to understand that this problem is just not the Federal, the State, or the locals, but it is the communities. This legislation helps get everybody at the table.

Senator D'AMATO. Well, Mayor, as I have indicated before, and I shared it with my colleagues, given the constraints we have in the budget, I think it is unrealistic to think that we are going to come up with huge infusions of money. However, I do believe that this bill, the creativity of it, will open up a tremendous pool of private sector dollars, that will add up to much more than we could possibly authorize or appropriate.

I am talking about, for example, the thing that County Executive Halpin talked about. We allow youngsters to use their IRA's and 401K's for a downpayment. Of the hundreds of thousands of young people that are going to have homeownership as an opportunity, the vast bulk of that financing is not going to come from the Federal Government, rather it will come as the result of their allowing them to use these funds for that downpayment. But it is going to come because the private sector will be providing a mortgage that otherwise would not be available to them.

So I think we have got to understand that we are fighting a tough battle here, a battle to get every possible dollar we can; but there is tremendous flexibility. For example, the raising of the caps. County Executive Halpin touched on an issue that is critical. What is the sense of having a limitation that excludes people that are earning $32,000 or $33,000 or whatever that number might be, and that artificially places a cap of $100,000 on FHA mortgages, when a house in our region, the cheapest you could get sells at $160,000 to $170,000?

It is unrealistic to think that first-time home buyers are going to be able to pay $60,000 as a downpayment. And so the FHA program does not do any good for them.

So let me ask any of the mayors, what strategy—because prior to your testimony, the Governors were asked a number of questions as it related to the drug problem—we can use to alleviate the drug problem. The drug problem probably has its greatest impact and really brings tremendous havoc to people in the projects who live in government subsidized housing, whether it is State, city, or Federal, housing projects of our communities—not just New York City's. For example in the small community of Freeport, Long Island, a woman was shot. She is fearful.

What strategies, if any, can we use?

Yes, Mayor?

Mayor KOCH. Well, we run the two largest low-income housing projects in the country. One is the New York City Housing Authority. A lot of Federal money in there, and that has 170,000 apartments. But what people do not know is that we have turned our In-rem stock into the second largest project, or one of the largest in the country.

There, we have over 50,000 apartments, 200,000 people living in apartments that were surrendered by landlords in lieu of taxes. When we got them, they were in a horrible state, and we have spent over a billion dollars of our community development money, beginning way back in 1980, to put them into relatively good shape—obviously, not as good as we would like, but far better than they were when they were given to us by the landlords, who did not think they were worth a nickel.

Now, we have developed the following strategy. We are evicting the people who are using apartments for the pushing of drugs in both of those entities, and we are having more success with our In-rem than we did with the New York City Housing Authority. Because until recently, in the New York City Housing Authority, you had to go through two hearings. First, the feds required an internal hearing to decide whether or not you could move to evict—and Secretary Kemp has removed that, I believe, not only in Washington, but he recently removed it in New York City, as well. They removed a couple of hundred.

But Abe Biderman, who has told me that we have now removed 1,200 tenants from our In-rem housing through eviction—we do it directly. And we have come up with a new program, which will be done on a pilot basis, which will give to community groups free lawyers to bring actions of a similar nature against tenants in private housing.

It requires the State of New York to pass legislation which is currently up there, giving standing to community organizations to be complainants or plaintiffs in a lawsuit in landlord-tenant court, to evict on the grounds that the apartment is being used for drug pushing. The landlords do not have the same desire as the tenant does. But that is one strategy that we suggest to you.

Mayor VOINOVICH. I just think that most of the public housing authorities today now are removing people that are found with drugs, or that have been convicted of drug violations. I think that one of the things that the Federal Government needs to look at, in terms of the allocation for public housing, are the security needs that the public housing agencies have.

I do not believe that that is part of the formula. That comes from somewhere else. It is interesting that, if you look at almost any private housing project in this country, one of the most fundamental aspects of it today is providing security, no matter what neighborhood that housing is located in.

When it comes to our public housing estates, that is not really given that much consideration.

Senator D'AMATO. Mayor? Yes.

Mayor RILEY. It is grounds for eviction. It cannot be tolerated. Whether it is public housing, or anything, it just cannot be, absolutely.

And if I could just follow up on a point you made just before that, Senator, about the money for the homeownership of FHA, the downpayment, the IRA categories, they are very important. But it is so important for our country to realize that low- and moderate-income housing, there is an investment that has to be made.

In your report, there is a graph, I made a picture of it, that shows a relative increase in constant dollars of people who earn $10,000 a year or less in 1983 dollars, and then the decrease in apartments that were available for $250 a month, which is relative to the income. That is 1973, that is 1983, and it has been growing since then.

Really, we are fooling ourselves if our country does not make a substantial investment. We are fooling ourselves if we really are going to be able to address the low- and moderate-income housing.

The Long Island statistics are the high end of the spectrum, but the fact of the matter is that the cost of housing has so far outstripped—it is depressing to put numbers to what a minimum wage person makes. Do it one time. Just put the numbers down, what they make, figure what 30 percent of that would be for housing. A hundred bucks a month, namely.

There is no hundred bucks a month housing available in our country any more. We find that in our homeless shelters in Charleston there are working people.

Senator Gramm asked about forcing people who are homeless to take the shelter. That is not the problem. These are working people. They get 20 hours a week, 30 hours a week, they do not have $3,300 for a deposit. They want housing.

That gap—I feel like this is just like a highway problem, or the national infrastructure problem, the gap has got to be funded or else it will just grow.

Senator D'AMATO. My time has expired, Mr. Chairman. I do have a number of questions, but I would just like to ask the mayor if he would not have Mr. Biderman get to us that law as it relates to empowering the tenants to have legal standing in our State legislature. I would like to see what I can do to aid you in the passage of that.

Mayor KOCH. Wonderful. We will do that today, Senator.

Senator D'AMATO. Thank you, Mr. Chairman.

Senator CRANSTON. Thank you very much.

Senator Mack?

Senator MACK. Thank you, Mr. Chairman. I will be very brief.

The three things that come to my mind listening to the testimony this morning have to do with the 70–30 split, the flexibility, and the HOME Corporation. The conclusion I had drawn just from this morning and again from my own experience is, it seems like the flexibility can be really enhanced by the 70–30 split, as opposed to the 50–50. Those two things are really kind of combined.

Is that a fair statement?

Mayor RILEY. I think we would all agree with that.

Senator MACK. That is going to make this a lot shorter. I am interested, though, in the difference. There seems to be a little bit of

difference of opinion between the need for the HOME Corporation, and maybe that has to do with the size of the community.

In other words, the staff support that exists, let's say, in New York City is sufficient to handle the problems; whereas in the smaller local communities maybe there is not a large enough staff to handle the problem.

Is that a fair assessment?

Ms. KLINGER. Correct.

Mayor RILEY. Probably so, yes. I think if HOME has the ability to help transform, or to share with communities around the country the success stories, and maybe the very large would not need it as much; but on the part of the smaller communities, it would be very helpful.

Mayor VOINOVICH. A lot of the communities, Senator, just do not have the capacity to do it, and the other thing that I think has occurred is that, when I became mayor of the city of Cleveland, we had about three groups that did housing. Today, we are up to 35.

They are nonprofit organizations who are very sophisticated. As a matter of fact, the loan officers of some of these local nonprofit organizations could go to work for any bank in town. They know more about leveraging and putting deals together and so forth. That is the kind of thing we should encourage, more of that indigenous leadership in the area, working with the citizens and with businesses, so they can take advantage of all of the stuff that is available out there.

I think the HOME thing would encourage that kind of thing throughout the country.

Mayor KOCH. It is just not critical. It cannot hurt, but it is not critical.

Senator MACK. OK, thank you.

Senator CRANSTON. Thank you very much. You have been very, very helpful, and we appreciate your being here.

We now go to the final panel. That will be Richard Shatten, executive director of Cleveland Tomorrow; David Stanley, chairman of Payless Cashways of Kansas City; and John Pritscher, the president of the Community Investment Corporation of Chicago.

I thank the three of you for your presence. We are grateful to you for your interest in this legislation. I want to remind you of the 5-minute rule. We are running out of time, and we would appreciate it very much if you could cover whatever you wish in that time. Your full statements, of course, will go in the record.

Let's start with Mr. Shatten.

STATEMENT OF RICHARD A. SHATTEN, EXECUTIVE DIRECTOR, CLEVELAND TOMORROW

Mr. SHATTEN. Thank you very much, Senator Cranston.

Members of the committee, I am Richard Shatten, executive director of Cleveland Tomorrow. It is a pleasure to speak to you on the National Affordable Housing Act.

Two major points today. No. 1, please provide permanent authority for the low-income housing tax credit. No. 2, do go ahead and

create the housing opportunity partnership facet of the HOME Corporation.

We are a organization where the chief executive officers of Cleveland's 50 largest corporations are involved in the regional raising of investment capital and downtown and neighborhood development. My current chairman, Jim Biggar, is the chairman of Nestle Corp. Our founding chairman was Del de Windt, chairman of Eaton Corp.

We have pursued programs in venture capital, and the housing tax credit makes that work. Like most cities, we have tremendous housing needs. The housing tax credit opens the door to corporate investment. Because of the credit 23 major corporations in our area have invested $5.6 million, and this year have committed an additional $5 million.

These are companies like Nestle, Sherwin Williams, Eaton, TRW, and EB America. Making that credit permanent gets you three things. First of all, you will undoubtedly get more housing units.

Senator D'Amato, you spoke about opening up capital markets. No question, by creating this tax credit you have brought new sources of capital into the greater Cleveland housing market.

Second, you really are spending other people's money. This will be corporate money. You are causing local cities to put money into deals that might not always otherwise flow into those deals, and you are causing State governments to lend money and make funds available to those programs.

Around the country, there has been talk about public-private partnerships. We are skeptical of most of them. They are flimsy, and they are often happy talk. This tax credit is a partnership that has muscle on all sides. It works, it brings people together in an organized way to mount an effective housing program. That is particularly important in the environment where the Federal Government is not an active driving supporter of housing.

Finally, and this may be a subtlety in Cleveland, but the tax credit has gotten corporations much more involved in housing issues. More than any other program, the tax credits caused Cleveland corporations to participate actively in the issues surrounding low-income housing. By being investors in these housing projects, they learned about conditions in neighborhoods, they have become directly involved as limited partners in real estate investments. They see their portfolio, they participate as advisers and volunteers.

That often directly leads to greater corporation volunteerism in community and neighborhood life. If you add the housing opportunity partnership to that program, you bring the necessary public dollars in.

We found in Cleveland that the scarce resource is not corporate equity, it is the local public subsidy necessary to round out the deal. The housing opportunity partnership brings added and important valuable dollars to round out the rest of that investment. It also helps assure State and city continuing participation.

There are not a lot of tools left to stimulate housing for low-income families. These are ones that we think are terrifically helpful. They work. We like them. We hope that you will continue to provide your help.

Thank you.

[The complete prepared statement of Richard A. Shatten follows:]

Testimony of Richard A. Shatten

Executive Director, Cleveland Tomorrow

Senate Subcommittee on Housing and Urban Affairs

June 6, 1989

Mr. Chairman, members of the committee. I am delighted to speak before you today on the National Affordable Housing Act (S.565 and S.566). Greater Cleveland needs this legislation. I have one message - please provide a permanent authority for the low income tax credit.

Cleveland Tomorrow is a committee of the Chief Executive officers of Cleveland's fifty largest companies, organized in 1982 to improve our region's economic vitality. Our chairman is James M. Biggar, Chairman of Nestle Enterprises. Our founding chairman was Del de Windt, then Chairman of Eaton Corporation. We have pursued programs in venture capital, university research, downtown development and neighborhood revitalization as a comprehensive approach to regional improvement.

The advent of the housing tax credit in 1986 provided a welcome opportunity to increase corporate involvement in neighborhood life. Cleveland, like most urban areas, has extensive substandard housing and many people in need of affordable housing. The housing tax credit provides a new source of capital for Cleveland's housing initiatives. As a direct result of the credit, 23 Cleveland companies have invested $5.6 million in the tax credit program and have committed an additional $5 million in 1989.

Extending the credit and making it permanent accomplishes several broad objectives:

1. You get more housing.

   To date, most users of the credit have been civic minded organizations that want to support low income housing. The national financial intermediaries have been reluctant to sell this investment product because of the uncertainty over the life of the credit. Making the credit permanent moves the program into the marketplace, substantially increasing the number of housing units generated each year.

2. You spend someone else's money.

   The Fund aggressively leverages federal funds through state and local government and private investment.

There has been a lot of talk around America about public-private partnerships. Most are pretty flimsy things - often little more than happy talk committees. The tax credit program has created a partnership with muscle on all sides. City funds combine with State loan funds to package housing units affordable to low income families. Corporate equity through the tax credit provides the glue that makes everything else possible. We are not aware of other Federal housing programs that bundle so many sources of capital together into a systematic production program for low income housing.

3. <u>You get corporations involved in a pressing national issue.</u>

More than any other program, the Federal housing tax credits have enabled the private sector in Cleveland to participate actively in low income housing development. Corporations learn about conditions in the neighborhoods through limited partner meetings, advisory board meetings and direct observation of their housing portfolio. In many instances, this leads to greater corporate volunteerism in neighborhood life.

Washington does not have many tools to stimulate low income housing. We hope you will consider retaining the housing tax credit. It works, we like it, but we need your help.

Cleveland Tomorrow's Support for Low-Income Housing

Background Material to Richard Shatten's Testimony on June 6, 1989

Background

Cleveland Tomorrow is an organization of 50 chief executive officers from the largest companies in Greater Cleveland committed to the economic revitalization and growth of Northeastern Ohio. Our portfolio includes initiatives in labor/management, venture capital, research and development and physical development. The latter category includes a strong emphasis on neighborhood development in addition to our commitment to making our downtown an exciting urban center.

Cleveland Tomorrow became involved in supporting the development of housing in partnership with community-based development organizations in 1986. The low-income housing tax credit has enabled corporations in Cleveland to commit nearly $6 million in various tax-credit projects in the last 30 months.

Future Expectations

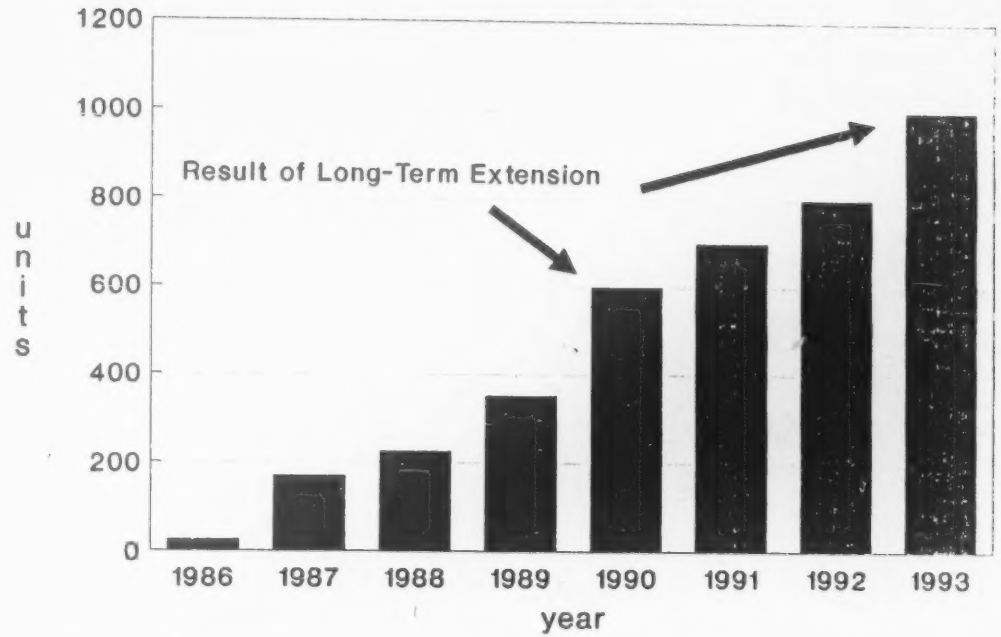
Cleveland Tomorrow members have committed to invest an aggregate sum of $5 million in 1989 in various housing projects utilizing the tax credit vehicle. This year's commitment will raise the corporate community's total investment in Cleveland to over $10 million. This sustained and growing commitment to housing development is illustrated in Item 1.

Reference Materials

Attached are several items which might be beneficial to the committee:

1. Future Expectations.
2. A list of corporations who have invested to date.
3. A list of projects we have invested in through 1988.
4. A list of other organizations which are supporting these programs in Cleveland in addition to the investors.
5. A March 27, 1989, Fortune article which describes Cleveland's revitalization efforts and Cleveland Tomorrow's role in many of the new programs. The last page of the article mentions our housing program.

Projected Growth of Tax-Credit Housing in Cleveland by 1994



Source: Cleveland Tomorrow

ITEM 2

CLEVELAND HOUSING PARTNERSHIP EQUITY FUND
CLEVELAND TOMORROW
CORPORATE INVESTORS

BP America Inc.
Banc One Community Development Corporation
Bearings, Inc.
Eaton Corporation
Ferro Corporation
Forest City Enterprises, Inc.
The Higbee Company
Huntington Bancshares Incorporated
MTD Products Inc.
NACCO Industries, Inc.
National City Community Development Corporation
Nestle Enterprises, Inc.
Parker-Hannifin Corporation
Premier Industrial Corporation
The Sherwin-Williams Company
Society National Bank
The Standard Products Company
The Stouffer Corporation
Sunarhauserman Inc.
TRW Inc.
First Federal Savings Bank

ITEM 3

CLEVELAND HOUSING PARTNERSHIP EQUITY FUND

PROJECTS SUPPORTED TO DATE*

Project/Developer	Type of Project
CHNLP I Cleveland Housing Network	19 unit, scattered-site, single family rehab; nine CHN neighborhoods
CHNLP II Cleveland Housing Network	25 unit, scattered-site single-family rehab; nine CHN neighborhoods
CHNLP III Cleveland Housing Network	40 unit, scattered-site single-family rehab; nine CHN neighborhoods
CHNLP IV Cleveland Housing Network	40 unit, scattered-site single-family rehab; nine CHN neighborhoods
CHNLP V Cleveland Housing Network	80 unit, scattered-site single-family rehab; nine CHN neighborhoods
6516 Detroit Associates LP John Ferchill and Detroit-Shoreway Community Development Organization	64 unit, mixed-use rehab for elderly and handicapped; Detroit-Shoreway neighborhood
CMFLP I Union-Miles Development Corporation; Near West Housing Corporation; Broadway Area Housing Coalition; Cleveland Housing Network	31 unit, scattered-site small multifamily rehab Union-Miles, Near West and Broadway neighborhoods
TOTAL PROJECTS 7	TOTAL UNITS 299

* Additionally, prior to the formation of CHPEF, 10 Cleveland Tomorrow corporations made a $1.6 million investment in Lexington Village II, a 94 unit townhouse new construction project in the Hough neighborhood developed by McCormack, Baron and Associates. CHPEF will shortly purchase one investment unit in the project to complete the equity financing.

ITEM 4

CLEVELAND HOUSING PARTNERSHIP EQUITY FUND
PARTNERS, SUPPORTERS AND FUNDERS

PARTNERS

Developers	Investors	Financing	Fund Management
Cleveland CDCs and Private Developers	Cleveland Tomorrow Corporations	City of Cleveland	Enterprise Social Investment Corporation and Enterprise Foundation

SUPPORTERS AND FUNDERS

BP America

Cleveland Tomorrow

East Ohio Gas

Calfee, Halter & Griswold

Ernst & Whinney

Ohio Bell

Centerior Energy Corp.

The Plain Dealer

Enterprise Foundation

City of Cleveland

Ameritrust Development Bank

First Nationwide Bank

Cleveland Metropolitan Housing Authority

Ohio Housing Finance Agency

State of Ohio, Dept. of Development

Cleveland Housing Network

Gund Foundation

Cleveland Foundation

Neighborhood Progress, Inc.

Center for Neighborhood Development

Local Initiatives Support Corporation

National Trust for Historic Preservation

Senator CRANSTON. Thank you very, very much. Thank you for the strength of your testimony.

And now, I propose to recognize Mr. Stanley.

STATEMENT OF DAVID STANLEY, CHAIRMAN AND CEO, PAYLESS CASHWAYS, INC., CHAIRMAN, NATIONAL EQUITY FUND, PRESIDENT, KANSAS CITY NEIGHBORHOOD ALLIANCE

Mr. STANLEY. Thank you, Mr. Chairman.

I am David Stanley, of Kansas City, MO. I thank you for the opportunity of testifying before you on the National Affordable Housing Act, which is good legislation.

While I make my living in the shelter business, as chairman and CEO of Payless Cashways based in Kansas City, one of the Nation's largest building material retailers, I suspect that I was invited here today more because I chair the National Equity Fund, which consists of a series of limited partnerships formed by leading American corporations to invest in the equity ownership of low-income housing for homeless Americans.

We have invested half of our $65 million so far in New York, approximately 20 percent in California. We are the partner that Mayor Koch referred to in his testimony.

The NEF is an affiliate of the Local Initiatives Support Corporation which, including NEF equity investments of nearly $65 million, has invested over the last 8 or 9 years over $200 million in support of local and neighborhood initiatives, principally in the area of affordable housing for low-income families.

I expect I was invited in part because I also chair the Kansas City Neighborhood Alliance, a nonprofit organization the purpose of which is to build the capacity of neighborhood organizations and community development corporations in metropolitan Kansas City, which itself is a developer of affordable housing.

I am pleased to participate in a hearing concerning the State and local role, because both at the NEF and at the Neighborhood Alliance, we are a player at the local level. I need not testify as to the need for decent affordable housing. That is well documented.

I will tell you that when the Kansas City Housing Authority opened applications for only 256 low-income rental units in May of this year, over 3,000 persons stood in the rain for a chance for a better place to live.

What I wish to say to you today is that, if the Federal Government will come back into the business of supporting a national housing policy, and will do so with serious money and with a promise and with predictability to the program, at the local level we can make that work.

We really need only three things: money, serious money; durability, the promise of continuity in the funding, permanent authority for mortgage revenue bonds, for example, rather than a simple 3-year extension; and predictability, supportive flexible rules that we can understand.

There is much that I could say about the bill. There is much that I could say about LISC and the NEF and the Neighborhood Alliance, and I have filed more extensive testimony with the committee. I will make four specific brief points.

First, the low-income housing tax credit should be extended and be permanent, either in this bill or in another. It works, and it heavily involves the private sector, and private sector involvement is exceedingly important.

Second, I believe that community and neighborhood issues, including housing issues, are best addressed at the community or neighborhood level. I applaud your 10 percent set-aside for use by nonprofit housing organizations, and your proposed financial support of capacity building among community-based nonprofit developers. That is the business that LISC and the NEF and the Neighborhood Alliance are in, and Federal support is crucial for the long-term success of the housing production program.

Third, I suggest a phase-in of the State and local match requirements. Some States and localities are ready, some are not. The need is everywhere. Please let the States that need to catch up have time to catch up.

Finally, I want you to know that when the Federal Government a few years ago seemed determined that decent, affordable housing for low-income and disadvantaged American families was somebody else's problem, the need did not go away. The partnerships of State and local governments, community-based organizations, and members of the philanthropic and private sectors, began to form and to work together. They built a system that has accomplished some remarkable results and has helped to meet the need.

As a nation, of course, we have lost ground. But when the Federal Government gives serious money, durability, and predictable, flexible rules, added to our partnership, we can start to gain again.

I thank you for the opportunity to address these important issues.

[The complete prepared statement of David Stanley follows:]

TESTIMONY OF DAVID STANLEY BEFORE THE SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS, JUNE 6, 1989

GOOD AFTERNOON,

THANK YOU MR. CHAIRMAN. MY NAME IS DAVID STANLEY. I SPEAK TO YOU TODAY AS A PLAYER IN SEVERAL ASPECTS OF THE SHELTER BUSINESS -- AS CHAIRMAN AND CEO OF PAYLESS CASHWAYS, INC., ONE OF THE NATION'S LARGEST BUILDING MATERIAL RETAILERS, AS THE CHAIRMAN OF THE BOARD OF DIRECTORS OF THE NATIONAL EQUITY FUND, AND AS PRESIDENT OF THE KANSAS CITY NEIGHBORHOOD ALLIANCE.

BACKGROUND OF NEF

THE NATIONAL EQUITY FUND IS THE CREATION OF THE LOCAL INITIATIVES SUPPORT CORPORATION (LISC). SINCE 1980, LISC HAS WORKED WITH COMMUNITY GROUPS, GOVERNMENT, BUSINESS, AND FOUNDATIONS TO DEVELOP PARTNERSHIPS THAT CAN HELP REVITALIZE TROUBLED COMMUNITIES THROUGHOUT THE COUNTRY.

BY 1987, LISC WAS PAINFULLY AWARE OF THE GROWING CRISIS OF AFFORDABLE HOUSING THROUGHOUT THE COUNTRY, CAUSED BY CHANGES IN THE COUNTRY'S ECONOMY AND DEMOGRAPHICS ON THE ONE-HAND, AND BY AN 80 PERCENT CUTBACK IN FEDERAL FUNDING FOR LOW-INCOME HOUSING ON THE OTHER.

NEIGHBORHOOD ACTIVISTS, LOCAL GOVERNMENTS, INVOLVED CORPORATIONS AND COMMUNITY DEVELOPERS ALIKE WERE AWARE OF THE DIRE NEED FOR A NEW SOURCE OF EQUITY TO REFUEL THE LOW-INCOME HOUSING PRODUCTION ENGINE.

AN OPPORTUNITY TO IDENTIFY THAT NEW SOURCE WAS PRESENTED BY THE LOW-INCOME HOUSING TAX CREDIT PROVISIONS OF THE 1986 TAX REFORM ACT.

LISC BELIEVED THAT THE PROVISIONS OF THE LOW INCOME HOUSING TAX CREDIT COULD BE USED TO HARNESS THE SUBSTANTIAL RESOURCES OF U.S. CORPORATIONS TO FINANCE AFFORDABLE RENTAL HOUSING. AND THEY WERE RIGHT.

NEF USES THE TAX CREDIT TO RAISE CORPORATE INVESTMENT DOLLARS FROM THE NATION'S LEADING CORPORATIONS FOR USE AS EQUITY INVESTMENTS IN AFFORDABLE HOUSING DEVELOPMENTS FOR LOW INCOME RESIDENTS. THESE HOUSING DEVELOPMENTS ARE SPONSORED, OWNED AND MANAGED BY NON-PROFIT COMMUNITY BASED DEVELOPMENT ORGANIZATIONS' COMMONLY REFERRED TO AS CDCs. NEF EQUITY INVESTMENTS ARE USED TO LEVERAGE THE PRIVATE DOLLARS NEEDED TO COMPLETE A DEVELOPMENT'S FINANCING PACKAGE.

OUR SYSTEM WORKS.

IN OUR FIRST YEAR, 1987, THIRTEEN CORPORATIONS INVESTED 14.25

MILLION DOLLARS IN NEF, WHICH LEVERAGED ANOTHER 40 MILLION DOLLARS FROM PUBLIC AND PRIVATE SOURCES TO BUILD 856 UNITS OF HOUSING THROUGHOUT THE COUNTRY.

IN 1988, NEF RAISED 51 MILLION DOLLARS FROM 39 CORPORATIONS WHICH LEVERAGED AN ADDITIONAL 103 MILLION DOLLARS TO CREATE OVER 2,000 UNITS OF HOUSING. AND IN 1990, IF THE TAX CREDIT IS RENEWED, WE EXPECT TO RAISE CLOSE TO 90 MILLION CORPORATE DOLLARS FOR BUILDING AFFORDABLE HOUSING. HOUSING WHICH, DUE TO ITS COMMUNITY OWNERSHIP AND INVOLVEMENT, TRULY MEETS COMMUNITY NEED AND WILL REMAIN AFFORDABLE TO LOW-INCOME RESIDENTS.

IN 1988 NEF ALSO CREATED SPECIAL EQUITY FUNDS IN CALIFORNIA AND NEW YORK AS PART OF A STRATEGY TO TARGET ITS GROWING CAPITAL POOL FOR MAXIMUM LOCAL BENEFIT. THE CALIFORNIA EQUITY FUND INVESTS IN HOUSING DEVELOPMENTS THROUGHOUT THE STATE, OFFERING CALIFORNIA CORPORATIONS ADDITIONAL TAX BENEFITS THROUGH THEIR STATE'S LOW-INCOME HOUSING TAX CREDIT. THE NEW YORK EQUITY FUND FOCUSES ON NEW YORK CITY, WHERE MORE THAN 1,000 UNITS OF AFFORDABLE HOUSING ARE BEING RENOVATED BY AN HISTORIC PARTNERSHIP BETWEEN THE CITY, THE STATE, COMMUNITY DEVELOPERS, FOUNDATIONS AND THE NEW YORK EQUITY FUND.

WE HAVE LEARNED A GREAT DEAL FROM OUR EXPERIENCE THESE PAST TWO YEARS ABOUT BOTH WHAT IS REQUIRED TO BUILD AFFORDABLE HOUSING AND WHAT IS REQUIRED TO BUILD THE PUBLIC/PRIVATE/COMMUNITY

PARTNERSHIPS THAT TRULY MEET COMMUNITY NEED AND TRULY FOSTER COMMUNITY REVITALIZATION.

NEF WORKS WELL IN MANY WAYS FOR A VARIETY OF REASONS THAT HAVE A BEARING ON THE LEGISLATION WE ARE DISCUSSING TODAY.

WHAT WE HAVE HAMMERED TOGETHER OVER THESE THREE YEARS ARE THE RUDIMENTARY ELEMENTS OF A LOW-INCOME HOUSING PRODUCTION SYSTEM. WE HAVE LEARNED WHAT PARTNERSHIPS AND ELEMENTS ARE NECESSARY TO BUILD LOW-INCOME HOUSING EFFECTIVELY AND EFFICIENTLY. USING ALL THE ELEMENTS AVAILABLE TO US WE HAVE LEARNED WHAT STRENGTHS EXIST IN THE SYSTEM -- AND WHAT MORE IS NEEDED TO COMPLETE A HOUSING PRODUCTION SYSTEM THAT MEETS OUR NATION'S NEEDS.

NEF HAS IDENTIFIED MANY OF THE ESSENTIAL ELEMENTS OF THE PRODUCTION SYSTEM AND WHAT ATTRACTS THEM.

WE KNOW THAT CORPORATIONS AND INDIVIDUALS ARE WILLING TO INVEST IN LOW-INCOME HOUSING IF THEIR INVESTMENTS CAN BE SECURE AND WISELY MADE -- AND MY COMPANY HAS DONE SO. NEF HAS GAINED THE ENTHUSIASM OF CORPORATIONS BECAUSE WE ALLOW THEM TO INVEST IN A MANNER THAT IS BOTH SOCIALLY MEANINGFUL AND FISCALLY RESPONSIBLE. BY CREATING A BLIND POOL FOR INVESTMENT WE ALLOW CORPORATIONS TO DIVERSIFY THEIR RISK; BY SCREENING CDCs AND PROVIDING CDCs WITH NEEDED TECHNICAL AND CAPACITY BUILDING ASSISTANCE WE ASSURE CORPORATIONS THAT THE DEVELOPMENTS IN WHICH THEY INVEST WILL BE

WELL MANAGED AND USED ONLY FOR THE ULTIMATE BENEFIT OF THE TENANTS.

WE KNOW THAT LOCAL GOVERNMENT IS A WILLING AND ABLE PARTNER. THROUGHOUT THE COUNTRY WE HAVE CREATED PARTNERSHIPS WITH LOCAL AND STATE GOVERNMENT. ALTHOUGH THE SOURCES OF THEIR FUNDS VARY, EACH HAS BEEN WILLING TO INVEST THEIR SCARCE DOLLARS IN COMMUNITY BASED PROJECTS. GOVERNMENTS HAVE LEARNED THAT NEF ALLOWS THEM TO STRETCH SCARCE HOUSING DOLLARS; THEY KNOW THAT NEF'S TARGETING AND UNDERWRITING CRITERIA REINFORCE AND EFFICIENTLY CARRY OUT THE PUBLIC MANDATE; AND THEY HAVE LEARNED THAT COMMUNITY-BASED DEVELOPERS, INCLUDING THE KANSAS CITY NEIGHBORHOOD ALLIANCE, ARE CAPABLE RESPONSIBLE PARTNERS, ABLE TO INTEGRATE LOW-INCOME HOUSING INTO THEIR COMMUNITIES WITHOUT RANCOR, AND ABLE TO INCORPORATE THE HOUSING INTO AN OVERALL COMMUNITY DEVELOPMENT STRATEGY.

WE HAVE FOUND TRADITIONAL LENDERS ALSO TO BE WILLING PARTNERS IN LOW-INCOME HOUSING. LENDERS, INCLUDING COMMERCIAL BANKS IN KANSAS CITY AND ACROSS THE NATION, THAT HAD BEEN RETICENT TO INVEST IN DISTRESSED COMMUNITIES HAVE BECOME ENTHUSIASTIC PARTNERS BECAUSE THEY KNOW THAT NEF'S INVESTMENTS HARMONIZE EASILY WITH OTHER FINANCING AND PROVIDE ADDITIONAL SECURITY FOR THEIR LOANS. LENDERS ALSO KNOW THAT NEF'S SCREENING PROCESS ASSURES THAT THE DEVELOPERS ON WHOM THEY ARE BANKING CAN BE TRUSTED TO FOLLOW THROUGH.

AND WE HAVE FOUND COMMUNITY-BASED DEVELOPERS TO BE EXCELLENT AND WILLING PARTNERS. IT IS IRONIC, BUT SIGNIFICANT TO NOTE, THAT

THE EXODUS OF THE PRIVATE DEVELOPERS FROM LOW-INCOME HOUSING DUE TO AN END OF GOVERNMENT FINANCING AND TAX CREDITS, HAS CREATED A WHOLE NEW CATEGORY OF CAPABLE, RESPONSIBLE DEVELOPERS -- NON-PROFIT CDCs.

THESE GROUPS, GROWING OUT OF NEIGHBORHOOD ADVOCACY ORGANIZATIONS HAVE BECOME THE MAJOR DEVELOPERS OF LOW-INCOME HOUSING THROUGHOUT THE COUNTRY, OUTPACING H.U.D. IN THEIR DEVELOPMENT OUTPUT. WE HAVE FOUND THEM TO BE CAPABLE, RESPONSIBLE, AND CREATIVE -- LIMITED ONLY BY THEIR STAFF CAPACITY AND AVAILABLE FUNDS.

WHAT WE HAVE FOUND LACKING THESE PAST YEARS, HOWEVER, IS A FEDERAL PARTNER FOR OUR EFFORTS -- A PARTNER THAT IS ESSENTIAL IF WE ARE TO MEET THE HOUSING NEED, PARTICULARLY AMONG THOSE PEOPLE WHO ARE VERY LOW INCOME.

NEF DEVELOPMENTS ARE BUILT TO BE AS LOW COST AS POSSIBLE TO THE ULTIMATE TENANT. BY COMBINING NEF'S EQUITY INVESTMENT WITH PUBLIC DOLLARS THAT ARE LENT AT NO- OR LOW-COST TO THE DEVELOPMENTS, IN A TYPICAL NEF DEVELOPMENT LESS THAN A THIRD OF THE TOTAL COST OF THE DEVELOPMENT REQUIRES PRIVATE FINANCING -- AND THAT IS USUALLY SUPPLIED AT BELOW MARKET RATES.

WITH OUR CORPORATE INVESTORS REALIZING PROFITS PRINCIPALLY THROUGH TAX CREDITS, OUR CDCs AND LOCAL GOVERNMENT PARTNERS NOT

INTERESTED IN PROFITS, AND OUR LENDERS PROVIDING FINANCING AT BELOW MARKET RATES, WE ARE BUILDING AS CHEAPLY AS POSSIBLE. AND THE RENTS REFLECT THAT -- RANGING FROM 175 DOLLARS FOR A ROOM IN A SINGLE-ROOM-OCCUPANCY HOTEL TO 600 DOLLARS FOR A LARGE FAMILY UNIT IN URBAN AREAS SUCH AS NEW YORK CITY OR CHICAGO.

YET WITHOUT FURTHER SUBSIDY WE WILL NEVER BE ABLE TO REACH THE VERY POOR IN OUR COUNTRY AND PROVIDE THEM WITH THE SHELTER THEY NEED. WHICH BRINGS ME TO THE LEGISLATION BEFORE US TODAY. LEGISLATION THAT IS ESSENTIAL IF WE ARE TO HOUSE AMERICA.

WE HAVE THOROUGHLY REVIEWED YOUR LEGISLATION AND THE TASK FORCE REPORT BEHIND IT, AND WE APPLAUD YOU FOR A COMPREHENSIVE JOB WELL DONE.

FROM MY READING, IT APPEARS THAT YOU HAVE IDENTIFIED THE BASIC AREAS IN WHICH HELP IS NEEDED BOTH TO PRODUCE HOUSING AND TO MAKE THE HOUSING ACCESSIBLE TO THOSE FOR WHOM IT IS DESIGNED.

LET ME REVIEW THE LEGISLATION FROM OUR POINT OF VIEW BY ADDRESSING ELEMENTS OF THE BILL THAT EFFECT THE OPERATIONS OF NEF AND SIMILAR PROGRAMS.

OVERALL I BELIEVE YOUR HOUSING PRODUCTION STRATEGY OF A FEDERAL, LOCAL, PRIVATE AND COMMUNITY PARTNERSHIP IS A CORRECT ONE. ONE OF THE INTERESTING CONSEQUENCES OF THE PAST DECADE, WHETHER

INTENDED OR NOT, IS THAT WHEN THE FEDERAL GOVERNMENT WALKED AWAY FROM HOUSING, NEW FORCES STEPPED IN -- PARTICULARLY ON THE LOCAL LEVEL.

THUS, I BELIEVE THAT BY REQUIRING LOCALITIES AND STATES TO DESIGN AFFORDABLE HOUSING STRATEGIES YOUR LEGISLATION PUTS THE ISSUE ON THE TABLE FOR LOCAL GOVERNMENTS -- HOPEFULLY ENGENDERING A PROCESS OF CREATIVE THOUGHT THAT WILL PROVIDE US WITH NEW APPROACHES AND MODELS THAT CAN BE REPLICATED THROUGHOUT THE COUNTRY.

BY MANDATING LOCAL AND STATE FINANCIAL PARTICIPATION, AS YOU DO IN THE HOUSING OPPORTUNITY PARTNERSHIP SECTION OF YOUR LEGISLATION, YOU HELP TO ENSURE THAT LOCAL ATTENTION WILL BE PAID TO HOUSING MATTERS AND THAT PROGRAMS WILL BE CARRIED OUT MORE EFFICIENTLY UNDER THE SCRUTINY OF LOCAL AND STATE LEGISLATURES.

TODAY, NEARLY EVERY STATE IN THE NATION HAS A FUNDING STREAM DEDICATED TO HOUSING. WHEREAS IN 1985 FOUR STATES HAD AFFORDABLE HOUSING TRUST FUNDS, TODAY SUCH FUNDS EXIST IN 35 STATES. AND WHERE THEY DO NOT EXIST, OTHER STATES AND CITIES HAVE CREATED INNOVATIVE SCHEMES SUCH AS DEVELOPMENT FEES AND RECIPROCAL AGREEMENTS WITH FOR-PROFIT DEVELOPERS TO PROVIDE NEW SOURCES FOR LOW-INCOME HOUSING PRODUCTION. YOUR REQUIREMENT OF FINANCIAL PARTICIPATION ENSURES THAT ON THE ONE HAND EACH STATE MEETS ITS RESPONSIBILITIES, AND THAT ON THE OTHER HAND THE POOR ARE NOT

FORCED TO LEAVE THEIR CHOSEN HOMES IN ORDER TO FIND SHELTER, AS HAS HAPPENED IN THE PAST.

HOWEVER, NEF WOULD RECOMMEND A PHASE-IN FOR LOCAL MATCHES SO THAT THE POOR IN THOSE STATES WHICH ARE NOT YET ON LINE WITH A FUNDING PROGRAM ARE NOT FURTHER PENALIZED BY THEIR STATE'S SLOWNESS TO REACT. ALSO, WE WOULD RECOMMEND THAT A CERTAIN PORTION OF THE HOUSING OPPORTUNITY PROGRAM FUNDS BE AVAILABLE WITHOUT A MATCH TO ACCOMMODATE THOSE LOCALITIES WHICH LACK THE FISCAL CAPACITY TO PROVIDE ONE. THIS IS CERTAINLY IMPORTANT FOR THOSE AREAS MOST HARD-HIT BY CHANGES IN THE NATIONAL ECONOMY.

WE STRONGLY ENDORSE YOUR LOW- AND MODERATE-INCOME TARGETING. WE HAVE LEARNED THROUGH OUR USE OF THE TAX CREDIT THAT TARGETING FUNDS SPECIFICALLY TO LOW-INCOME HOUSING IS AN EXCELLENT STRATEGY FOR ASSURING AFFORDABLE HOUSING FOR THE LONG-RUN AND FOR REBUILDING COMMUNITIES. PREVIOUS FEDERAL PROGRAMS THAT PROVIDED BENEFITS FOR A WHOLE DEVELOPMENT, WITH ONLY A SMALL PORTION SET ASIDE FOR LOW-INCOME RESIDENTS MAY HAVE PROVIDED SHELTER FOR INDIVIDUALS FOR A TIME, BUT THOSE PROGRAMS DID NOT CONTRIBUTE TO THE MORE OVERRIDING AND LONG-TERM PROBLEMS OF REBUILDING COMMUNITIES, OR PROVIDING LONG TERM SOLUTIONS TO HOUSING THE POOR. BY VIEWING HOUSING PRODUCTION AS PART AND PARCEL OF COMMUNITY REDEVELOPMENT, WE CAN ACCOMPLISH MORE THAN ONE GOAL WITH THE USE OF OUR TAX DOLLARS.

SIMILARLY, WE ENDORSE THE CREDIT POOLS AND DRAW-DOWN REPAYMENT

MECHANISM YOU SUGGEST. SUCH A MECHANISM WILL ENCOURAGE RESPONSIBLE INVESTMENT BY STATE AND LOCALITIES IN HOUSING DEVELOPMENTS, WITHOUT PRESENTING SUBSTANTIAL RISKS AND OBSTACLES. IN ADDITION, THE POOLING OF FUNDS FROM FREDDIE MAC, FANNIE MAE AND OTHERS FOR MORTGAGE GUARANTEES SHOULD ENCOURAGE THE STATES AND LOCALITIES AND PRIVATE PARTNERS TO BECOME FURTHER INVOLVED IN THE HOUSING PRODUCTION PROCESS.

WE, OF COURSE, ALSO ENDORSE YOUR SUPPORT OF A PERMANENT EXTENSION OF THE LOW-INCOME HOUSING TAX CREDIT WHICH WE HAVE FOUND SO USEFUL IN CREATING THE PARTNERSHIPS NEEDED TO MEET OUR HOUSING NEEDS. WE HAVE FOUND THE ONLY REAL LIMITATION ON THE PARTNERSHIPS CREATED THROUGH THE TAX CREDIT TO BE THE CONSTANT UNCERTAINTY ABOUT ITS PERMANENCE. A PERMANENT EXTENSION WILL ALLOW US TO KEEP THOSE PARTNERSHIPS GOING AND GROWING.

YOUR CONCEPT OF THE HOME CORPORATION, I BELIEVE, ALSO WILL BE VERY BENEFICIAL TO STATES AND LOCALITIES. ONE OF THE PROBLEMS WE HAVE ENCOUNTERED IN THE PAST YEARS IS THE NUMEROUS AGENCIES WITH WHICH ONE MUST INTERACT TO COMPLETE ANY PROJECT. BY STREAMLINING THE PROCESS AND CREATING ONE-STOP SHOPPING, YOUR BILL ENHANCES THE PRODUCTION PROCESS AND CAN HELP PRODUCE AN ON-GOING PRODUCTION FINANCING STREAM WITH REDUCED START-UP TIME FOR ANY AND EVERY PROJECT.

IN THAT REALM, I THINK THAT THE HOME CORPORATION, IF IT TRULY

ACTS AS A COMMUNICATION VEHICLE, CAN HELP STATES AND LOCALITIES AVOID RE-INVENTING THE WHEEL. DESPITE OUR UNITY AS A NATION OR IN THE CORPORATE SECTOR, IT OFTEN AMAZES ME HOW LONG IT TAKES A GOOD IDEA PURSUED IN ONE STATE TO BE REPLICATED IN ANOTHER. THE CALIFORNIA LOW INCOME HOUSING TAX CREDIT IS A GOOD EXAMPLE -- HAVING PROVED EXTREMELY EFFECTIVE IN CALIFORNIA AS AN INCENTIVE FOR CORPORATE INVESTMENT, IT HAS YET TO BE REPLICATED IN ANY OTHER STATE. THE FEDERAL GOVERNMENT'S ENCOURAGEMENT OF THE TAX CREDIT, THE AFFORDABLE HOUSING TRUST FUND IDEAS, OR NEW PROGRAMS THAT EMERGE WILL SPEED UP THE PROCESS OF REACHING OUR HOUSING GOALS.

FINALLY, ON THE PRODUCTION SIDE, I BELIEVE THAT YOUR TEN PERCENT SET ASIDE FOR USE BY NON-PROFIT HOUSING ORGANIZATIONS AND YOUR ALLOCATION OF DOLLARS FOR CAPACITY BUILDING AMONG NON-PROFIT COMMUNITY-BASED DEVELOPERS IS CRUCIAL TO THE LONG-TERM SUCCESS OF A HOUSING PRODUCTION PROGRAM.

AS I STATED EARLIER IN MY REMARKS, WE HAVE FOUND NON-PROFIT CDCs -- WHO FOCUS THEIR ACTIVITIES ON ONE OR A FEW ECONOMICALLY DISTRESSED AREAS, AND WHO BUILD HOUSING AS PART OF A COMMUNITY DEVELOPMENT STRATEGY -- TO BE AN ESSENTIAL ELEMENT IN OUR WORK, FOR A VARIETY OF REASONS. WE HAVE FOUND THAT GEOGRAPHICALLY FOCUSED LOW-INCOME HOUSING PROGRAMS ARE MORE LIKELY TO SUCCEED THAN SCATTERING A FEW UNITS OF HOUSING IN NUMEROUS NEIGHBORHOODS THROUGHOUT A CITY. INDIVIDUAL LOW-INCOME HOUSING PROJECTS ARE MUCH MORE SUCCESSFUL AS PART OF A LONG-TERM COMMUNITY HOUSING PROGRAM,

SINCE EACH NEW PROJECTS REINFORCES EXISTING HOUSING IN THE NEIGHBORHOOD AND SETS THE STAGE FOR SUBSEQUENT DEVELOPMENT.

FURTHER, ORGANIZATIONS THAT ARE RESPONSIVE TO COMMUNITY RESIDENTS ARE ALSO FAR MORE LIKELY TO SUCCEED WITH HOUSING THAN ARE OTHER ORGANIZATIONS. COMMUNITY-BASED ORGANIZATIONS PLAN AND MANAGE THEIR HOUSING CAREFULLY BECAUSE THEIR CONSTITUENTS WILL HAVE TO LIVE IN, AND ALONGSIDE THAT HOUSING FOR A LONG TIME. THE FAILURE TO CONSULT COMMUNITY RESIDENTS HAS OFTEN SPARKED RESISTANCE OR RESULTED IN PROJECTS WHOSE COMMUNITY-WIDE IMPACT FALLS FAR SHORT OF THEIR POTENTIAL. THAT COMMUNITY-BASED ORGANIZATIONS HAVE BECOME THE PRIMARY DEVELOPER OF LOW-INCOME HOUSING IN THIS COUNTRY, SPEAKS TO THEIR DETERMINATION AND THEIR POTENTIAL. THE SET-ASIDE FOR THEM AND THE CREATION OF A CAPACITY BUILDING PROGRAM FOR THEM, WILL SEE THAT POTENTIAL REALIZED FOR THE BENEFIT OF ALL.

THUS, WE STRONGLY ENDORSE THE BASIC COMPONENTS OF YOUR PRODUCTION PLAN.

ON THE OTHER HAND, I THINK THAT YOUR CALL FOR THE CREATION OF A MORE COMPREHENSIVE SUBSIDY PROGRAM FOR RENTERS WILL ALSO HELP THE STATES AND LOCALITIES ACHIEVE THEIR HOUSING OBJECTIVES. THE STATE CAN HELP IN HOUSING PRODUCTION, BUT IT MUST ALSO ADDRESS THE NEEDS OF THE WOULD-BE RENTERS OF AFFORDABLE HOUSING. GIVEN THE DISPARITIES IN INCOME, MARKET CONDITIONS AND JOBLESS RATES AMONG VARIOUS STATES AND LOCALITIES, A FLEXIBLE, FEDERAL SUBSIDY PROGRAM

IS A CRUCIAL ELEMENT OF A HOUSING PROGRAM. FOR DESPITE THE BEST EFFORTS OF STATE AND LOCAL GOVERNMENTS, CORPORATIONS, COMMUNITY DEVELOPERS AND FOUNDATIONS, WE WILL NEVER HOUSE AMERICA'S POOR WITHOUT RENTAL SUBSIDIES TO BRIDGE THE GAP BETWEEN THE COST OF HOUSING AND THE AVAILABLE FUNDS OF POTENTIAL LOW-INCOME RENTERS.

THANK YOU.

Senator CRANSTON. Mr. Pritscher.

STATEMENT OF JOHN PRITSCHER, PRESIDENT, COMMUNITY INVESTMENT CORP., CHICAGO, IL

Mr. PRITSCHER. I am very happy to be here to lend my voice to the support of your outstanding legislation and to the process that helped to bring it to where it is now. I strongly urge its passage in this session.

As has been said by everybody else this morning, but especially by my two predecessors on this panel, the withdrawal of the Federal Government from affordable housing in these last 8 years has had some positive effects that were unforeseen, because it has required the private sector and local government to become more creative and to work together, and to find ways of stretching the programs that are there.

I am the President of the Community Investment Corp., the largest volume neighborhood lending program in Chicago. Thirty-one banks and savings and loans share in every loan that Community Investment Corp. makes. In the past 5 years, our borrowers have received over $100 million in loans to rehabilitate 6,250 apartment units in Chicago. A quarter of the buildings were vacant and boarded prior to the rehab loans.

A major change has occurred in Chicago and nationwide that fits well with this proposed housing legislation. Large pools of private loan funds are now available and targeted to low and moderate income neighborhoods. This is pretty much a reversal of what the situation was as recently as 5 or 6 years ago.

In Chicago, for example, over $300 million is pledged to neighborhood lending from the banking and savings community of the city. In order to leverage these private loans for the neighborhoods of greatest need, increased Federal housing subsidies are needed. This accessibility of private neighborhood loan funds is the environment that Federal housing legislation needs to build upon.

This accessibility of private loan funds will continue and grow, not only in Chicago but nationwide, in part because of the Community Reinvestment Act, which requires banks and savings and loans to make the money available; but also because of the success of the neighborhood loan programs that are in existence. By specializing in rehab financing and with standard underwriting procedures, banks are receiving reasonable returns on secure loans in lower income areas.

The one most important need in new Federal housing legislation is the provision of increased Federal housing subsidies, flexible funds to leverage private dollars.

In part to achieve the biggest bang for Federal housing dollars, this legislation is very important. The central elements of this proposed legislation: flexible Federal funds, local responsibility for local problems, emphasis on preservation of existing housing, and the requirements of local comprehensive affordable housing strategy, fit perfectly with current needs and the opportunity of leveraging private funds.

In Chicago, in part because of a comprehensible and flexible planning process initiated 6 years ago, namely the Housing Aban-

donment Task Force, there is a comprehensive set of housing programs addressing housing preservation needs. The following components of a total housing strategy have been effectively implemented: from private first mortgage loans, to city second mortgages, to energy loans, to smaller repair loans under $25,000, to programs reducing property tax assessments, to revised sales procedures for tax delinquent properties, to the establishment of a private equity fund for the use of community based development organizations, and a city housing abandonment prevention program.

In Chicago, 73 percent of our apartment buildings are over 50 years old. That is not at all surprising since little new housing was constructed from the beginning of the Depression until the end of the Second World War. That was over 60 years ago. In our older cities the housing that most of the poor and moderate income families are presently living in is older housing, and it needs to be preserved. The need in Chicago is to increase the volume of housing preservation activity especially for lower income households. The owners who know how to buy right and then how to control rehab costs, the present good landlords in low income neighborhoods and the low overhead contractor developers, need accessible and favorable rate local financing to encourage them to acquire and to fix up additional properties.

More Federal, State and local subsidy will be needed than will be available to meet affordable housing needs. Not only is the Federal Government tight with housing dollars, so are our cities and States. While private neighborhood loan programs tieing in with city administered CDBG and Rental Rahab Federal dollars are beginning to make a major impact on working poor and moderate income neighborhoods, we have scarcely scratched the surface in Chicago's poorest neighborhoods. The need for public dollars is greater in these areas where there is less real estate activity, and where low rents and low appraised values will limit the size of private first mortgage loans. In these Federal deficit times, a minor increase in housing funds will be well utilized to leverage private funds, but will be insufficient to do the housing preservation job needed in our poorest areas.

To just touch on a few other brief points—

I am surprised by the proposed 50-50 fund sharing between States and localities. It should be 70 percent local and 30 percent State. Cities or localities are much more accessible to a local planning or housing strategy process. If a mayor isn't responsive to low and moderate income neighborhoods, it will greatly impact on his chances for reelection. Also it will be noted by civic leaders and the press. The Governor is a lot farther away.

The requirement for a 25-percent State or local match will be a radical change for Chicago and Illinois, but it is a good idea. The crediting of deferred county property tax and the donation of property tax delinquent buildings as part of the 25 percent match would be a reasonable incentive.

Finally regarding Community Development Banks, hopefully the legislation will be flexible enough to permit experienced not for profit lenders, such as CIC, to become Community Development Banks. A Community Development Bank as a specialized lender committed to affordable housing is a valuable entity in creatively

working to make local programs work and in showing the way for other banks to broaden their normal activities.

The work that you are doing to address today's housing needs and opportunities is extremely important. I encourage you and your staffs to keep up your dedicated work.

[The complete prepared statement of John Pritscher follows:]

Community Investment Corporation Chicago's Leading Lender in Rehabilitation Financing

Printer's Square 600 South Federal Chicago, IL 60605 312 341 0075

TESTIMONY TO SENATE HOUSING SUBCOMMITTEE
RE. NATIONAL AFFORDABLE HOUSING ACT
CRANSTON - D'AMATO BILL

BY JOHN PRITSCHER
PRESIDENT, COMMUNITY INVESTMENT CORPORATION, CHICAGO, ILLINOIS
JUNE 6, 1989

I am John Pritscher, President of Community Investment Corporation, (CIC), Chicago's largest volume neighborhood lending program. Thirty one banks and savings and loans share in every CIC loan. We presently have a $110 million revolving loan pool. In the last five years CIC borrowers have received over $100 million to rehabilitate 6,250 apartment units in Chicago. One quarter of the buildings were vacant and boarded prior to acquisition.

I bring mainly good news from Chicago about the prospects for success nationwide in the preservation of affordable housing, but some bad news as well. Chicago banks and savings and loans have presently available over $300 million committed to neighborhood loan programs. Most of this is being utilized for the preservation of our City's aging apartment buildings, since the great majority of Chicago's low and moderate income households live in old apartment buildings. This accessibility of private rehab loan funds targeted to low and moderate income neighborhoods is a major change that appears to fit well with this proposed housing legislation.

This accessibility of private loans provides a previously unavailable improved environment for flexible local planning, public-private partnerships and a commitment to housing preservation which are the hallmarks of this proposed legislation.

More good news from Chicago is that a comprehensive housing program evolved in part because of a local planning process, follow-up negotiations and because housing issues continue to be a topic which local political leaders and the press have responded to in campaign discussions. Six years ago a Housing Abandonment Task Force was convened. Now most of the Tax Force recommendations have been successfully implemented as part of a total city housing preservation strategy. The implemented recommendations include the creation of:

1. Large scale private neighborhood lending programs.
   - CIC plus a number of banks including a $150 million program at First National Bank.

2. A city low interest second mortgage tandem loan program.
   - Presently funded by HUD Rental Rehab and CDBG programs, but a higher funding level is needed.

Community Investment Corporation

3. A 7% fixed energy loan program funded by Peoples Gas Company and the city. Loans are initiated through housing/energy centers established by eight community organizations plus seven Neighborhood Housing Services offices.
   - CIC is the multifamily program administrator. In 1988 we approved and closed 100 second mortgage loans for energy retrofits for 2,620 apartment units. The city CDBG funds required averaged less than $200 per unit.

4. A program for small repair loans under $50,000.
   - Administered by NHS with funding from Continental Bank and Illinois Housing Development Authority.

5. The City runs a Housing Abandonment Prevention program in conjunction with community groups.

6. The Cook County Assessor has recently created a program offering 50% tax reductions for eight years to stimulate apartment rehab at affordable rents.

7. Cook County is revising its Tax Scavenger Sale program.
   - This includes the Tax Reactivation Program where the city conveys properties lien free and at no cost to not for profit and to for profit developers. This is now in its second round.

8. Chicago community based organizations have successfully become housing developers with 2,588 units completed and 1,814 units under development. Equity funds are raised by local major corporations purchasing the income tax credits.
   - The continuation of tax credits is essential to the continuation of community groups rehabbing key buildings.

None of the above initiatives of the last five years would have been viable without the accessibility of flexible private neighborhood loans or without federal housing dollars provided through the City from the CDBG and Rental Rehab programs. A much greater impact is possible as these local programs mature, but only if increased federal, state and city loan funds are made available.

Earlier HUD production or rehab programs were not easily accessible to the small landlords and neighborhood based contractor-developers who know how and who have a strong incentive to control costs and to preserve as much as possible in rehabbing buildings. The bang to the federal housing buck nationwide will be much greater when joined with private loan dollars in programs accessible to those who have in the past been solely looking to timely, simple, local lending sources.

The bad news is that more federal, state and local money is needed than is likely to be provided to take advantage of private funds and the environment created by a comprehensive, local strategy of programs aimed at preserving housing. We could do a lot more in Chicago with double the amount presently allocated for affordable housing. Not only is the federal government tight with housing dollars; so are our cities and states. Most cities and states can't allocate less to education, police and fire protection, prisons or garbage removal and environment. Yet in Chicago over 73% of Chicago's apartment buildings are over fifty years old and many need repairs to be preserved. Think of your own communities; where are your low and moderate income people housed, and what is the condition of this housing? Most of the buildings housing Chicago's poor were built prior to 1930, 60 years ago, as little construction occurred from the beginning of the great depression until after the second world war. In Chicago most tired out apartment units can be acquired and repaired for between $20,000 to $30,000 per unit, where the cost of new construction is at least 3 times greater at $60,000 to $90,000 depending upon size, amenities and location. The need in Chicago is to greatly increase the volume of housing preservation of our aging housing stock.

The worst news in Chicago, and I suspect strongly nationwide, is that while we are beginning to make a major impact on working poor and moderate income neighborhoods we have scarcely scratched the surface of housing preservation in our poorest neighborhoods. The need for public dollars will be greater. For example, two thirds of CIC's loans receive some sort of subsidy. When we can get by with our interest subsidies using the $400,000 per year we receive in CDBG funds, the leveraging is over 16 private to 1 public dollar. On buildings where required rehab greatly exceeds what can be covered by rents, then 0 to 3% City second mortgages or outright grants are required. Here the leveraging has been about 1.5 CIC private dollars to 1 Rental Rehab or CDBG dollar. At times the leveraging of these programs is 5 to 1, but in the poorest areas with low appraised values, when gut rehab is required the leveraging can be 1 private to 2 public. In Chicago as property tax acquisition programs and community group rehabs increase, the possibility for rehab and the greater need for public dollars increase in tandem.

In brief summary:

This proposed legislation is right on target and is needed to address pressing needs and to make full use of present opportunities. It is important that it be passed this session.

The requirement of an annually updated five year local and state comprehensive housing affordability strategy is very important. Keep the requirements simple; encourage input from housing, lending and community groups; and require that the strategy be published. Local press and housing groups input should make the local strategies useful and responsive to needs.

Community Investment Corporation

I am surprised by the proposed 50/50 fund sharing between states and localities. Cities or localities are much more accessible to a local planning process. In Chicago the City government is an essential part of working with lenders, landlords and community groups. Our new mayor appears responsive to affordable housing issues. If a mayor isn't responsive to low and moderate income neighborhoods, it will greatly impact his chances for reelection and will be reported upon in out local press. Chicago has an abundance of low and moderate income residents. The state elected official who has shown the most initiative on affordable housing is the State Treasurer in his use of linked deposits with housing preservation programs. I would think the emphasis on local planning and city responsiveness would not be unique only to Chicago and Illinois. I would suggest a 75 local/25 State split.

The requirement for a 25% State or local match will be a radical change for Chicago and Illinois. They are presently under pressure for their lack of funding involvement, and the funds are desperately needed, since the proposed federal increases are low considering the needs. The analogy of the homeless on the streets as the tip of the affordable housing iceberg is accurate. An increasing number of the homeless are families and working poor who can't find or afford decent housing. How to greatly increase the volume of housing preservation is the central issue.

Encouraging county administered property tax incentives and tax deed conveyances must be part of a comprehensive Chicago strategy. The crediting of deferred local property taxes or the free conveyance of tax deed buildings as part of the local 25% match might be part of a solution, since local property, sales and use taxes are hard to significantly increase. Part of Chicago's problem is that over the last 30 years the disparity between household incomes in the city versus the suburbs has increased at the same time that city service and infrastructure needs have increased. Chicago has the poor. Chicago's suburbs, as a whole, have the higher income residents.

Regarding Community Development Banks, hopefully the legislation will be flexible enough to permit existing not for profit lenders, such as CIC, to become Community Development Banks. A Community Development Bank as a specialized lender committed to affordable housing and neighborhood preservation is a valuable entity in creatively working for the effective implementation of local programs and of showing the way for the banks and savings and loans to broaden their normal activities.

This legislation is very promising and it ties in well with our private sector programs. Your efforts to create effective legislation is, of course, of great importance.

Senator CRANSTON. Thank you very much. I thank all three of you.

I would like to ask you one question, which I would like to ask you to respond to in writing if you would. It would be particularly helpful, because of your background in the private sector, to tell us the following:

Does the bill provide adequate incentives to encourage private sector involvement in promoting low income housing?

Are there aspects of the bill intended to do that that you would strengthen in any way?

And, three, are there additional incentives not in the bill that should be considered by the committee?

If you could give us that in writing within a week, that would be very, very helpful.

[Response to Senator Cranston's questions follow:]

RESPONSES TO 3 QUESTIONS FROM SENATOR CRANSTON
BY JOHN PRITSCHER, PRESIDENT
COMMUNITY INVESTMENT CORPORATION

After the presentations on June 6, 1989, Senator Cranston addressed three questions to the panel and requested written responses.

1. DOES THE BILL PROVIDE ADEQUATE INCENTIVES TO ENCOURAGE PRIVATE SECTOR INVOLVEMENT IN PROMOTING LOW INCOME HOUSING?

   There will be plenty of private sector bank funds available in most areas of the country, in part because of the Community Reinvestment Act. The somewhat higher level of flexible federal funding in the proposed legislation will be well utilized in leveraging private funds where jointly they will make economically feasible required rehab when only low rents are available. Private loan pools will not be fully lent out due to the shortage of required matching subsidy funds in this deficit environment.

   The structure of the proposed legislation with flexible funds, local responsibility, etc., will in fact achieve the biggest bang ever achieved for limited housing dollars. Loans will be accessible to the small landlord and the neighborhood contractor. And local governments will need to find ways to fund as well as to remove obstacles to low income housing preservation.

2. ARE THERE ASPECTS OF THE BILL YOU WOULD STRENGTHEN IN ANY WAY?

   I would hope that cities and states with greater low income populations and deteriorating neighborhoods would receive a higher level of funding than areas where there is little housing abandonment and the normal real estate market is already functioning relatively well.

3. ARE THERE ADDITIONAL INCENTIVES NOT IN THE BILL THAT SHOULD BE CONSIDERED BY THE COMMITTEE?

   I am not sure how this bill relates to the tax bill, but clearly the Low-Income Housing Tax Credit has a major positive impact. Instead of extending the credit for just one year, as has been done in the past, it should be made a permanent part of the tax bill. This would enhance its effective use and save valuable time and effort.

JP/ss

Senator CRANSTON. Al, would you complete? Carry on any way you wish. I have to rush to another matter.

Senator D'AMATO. Mr. Chairman——

Senator CRANSTON. I thank all of the committee.

Senator D'AMATO. Mr. Chairman, I am not going to continue the hearing much longer other than to say that we are deeply appreciative of your efforts. I happen to share your concern, No. 1, that there be dollars committed, but I think on the realistic side whatever dollars we will be able to garner, if and when we are successful in passing this bill—and I think we are going to pass it—they are not going to be the kinds of dollars that some might be hoping for at this time. Given the budget constraints, it is not realistic.

However, I don't think we should despair because I think the window of opportunity as it relates, No. 1, to the flexibility, No. 2, to seeing to it that the dollars can be leveraged and utilized in a manner which would aid the workings going on, No. 3, that there are many people who don't recognize the capabilities that they do have in leveraging dollars, as you have, whether it be in New York, Chicago, or other areas.

So it is an educational process here.

And, finally, I think it is absolutely imperative that the initiative relates to the preservation, as testified, for the mortgage equity bond program, for the tax credit program, and also for opening up the doors to borrowing through FHA and making it more feasible for others to participate. That becomes a very important aspect, and it is something that is definitely obtainable and something that I think we can gather the full support of Congress and the administration.

So I thank you for your testimony. If there are any last points that you want to leave us with, I would be delighted to listen to you or to them.

Mr. STANLEY. Senator, it seems to me that one great gap, which maybe is not a practical subject to address in this bill, is the lack of any secondary market for first mortgages, as small as they may be from lending institutions on low income housing.

Senator D'AMATO. Is that a problem?

Mr. STANLEY. Generally speaking, the underwriting criteria of the major insuring organizations are not likely to be met.

Senator D'AMATO. What about if the FHA is given greater participation? Would that then open up that secondary market?

Mr. STANLEY. It might, indeed.

Senator D'AMATO. I mean, I would think if, for example, we lift that limit of $100,000 you are going to get considerably more and target it to the price of 95 percent of the median price of a house so that if it is in a high income area you can get $130,000 mortgages. So young people can buy a house by putting $10,000 down and $130,000 in the home mortgage.

Would that open up that secondary market?

Mr. STANLEY. It probably would, but I am talking more about the mortgage on rental housing of the variety that is supported by the low income housing tax credit.

Senator D'AMATO. That is a problem.

Mr. STANLEY. Few of the traditional lenders wish to hold that mortgage unsecuritized to maturity. They wish to put it into a

Ginnie Mae pool and sell it somewhere, and generally speaking, these mortgages don't fit as small as they are. They may be 20 to 30 percent loan to value ratio. Generally speaking, they don't fit the underwriting criteria of the major national institutions.

Mr. PRITSCHER. I think that is an interesting problem for the future, but the neighborhood lending programs fostered by the Community Reinvestment Act are relatively new. There is a need to develop a secondary market to permit the sale of these loans.

We have used State linked deposits to sell whole loans to our largest investing institutions.

Senator D'AMATO. Staff advises me that one of the roles of the HOME Corporation would be to ensure that a secondary market mechanism for low-income housing is created, and I would suggest that if you gentlemen might have any ideas or your organizations to submit them to staff so that we can look at them.

I am not suggesting that we will put them in the bill. It might not be appropriate related to report language, but certainly your thoughts on this would be welcome.

Mr. STANLEY. That to me is the principal value of HOME. If HOME in fact is going to insure, as does Ginnie Mae and as does Fannie Mae, is going to insure with a target on low income multiple rental housing, not housing of last resort but housing for very low income people, that would make a very substantial difference.

Mr. PRITSCHER. One thing that I haven't addressed—that I don't think anybody has addressed very adequately—was the bad news.

In Chicago, the very poorest neighborhoods have barely been scratched. That is where you need more public subsidy, where the appraised value is low limiting the size loan the private lender will make.

Mr. STANLEY. One final comment, which is particularly directed to your State, Senator D'Amato. In California there is a State low income housing tax credit. It would be very helpful in New York, similar pricing in New York. It would be very helpful in New York if there were a State low income housing tax credit.

Senator D'AMATO. I will have my people take a look at that State credit and we can lobby the legislature and see what they think of it.

You have done work in New York. How helpful would that be?

Mr. STANLEY. I think it would be substantially helpful. The New York Equity Fund was $25 million last year, principally from New York-based corporations, not entirely, and the effective cost of the housing or the percentage of equity that could have been invested would have been higher had there been a State tax credit.

Senator D'AMATO. What are we talking about? What percent? Can you give me a ballpark figure? What would that do?

Mr. STANLEY. I think, Senator, that in California we at the NEF invest very close to 50 percent of the total cost of the housing. In New York it is about 30.

Mr. SHATTEN. It is about 40 in Ohio.

Senator D'AMATO. So it would be an appreciable help in relation to being able to make these projects go?

Mr. STANLEY. It would make them affordable. It takes the rents down, and it takes the borrowing of money down and the demand for CDBG and other money.

Senator D'AMATO. Would I be imposing too much by asking if you couldn't put a paper together with your analysis and send it to us? That would be deeply appreciated.

Mr. STANLEY. NEF staff will do that, Senator. [Laughter.]

Senator D'AMATO. And staff will be more appreciative.

We thank you very much for your participation in this hearing. Thank you.

[Whereupon, at 12:55 p.m., the subcommittee was adjourned.]

[Additional material supplied for the record follows:]

NTIC National Training and Information Center
810 N. Milwaukee Ave. □ Chicago, Illinois 60622-4103 □ (312) 243-3035

SUPPLEMENTAL COMMENTS OF

GALE CINCOTTA, EXCUTIVE DIRECTOR,

NATIONAL TRAINING AND INFORMATION CENTER

BEFORE THE

SENATE COMMITTEE ON

BANKING, HOUSING, AND URBAN AFFAIRS

JUNE 6, 1989

Thank you for this opportunity to provide supplemental testimony on the need for strengthening of the Community Reinvestment Act (CRA) and Home Mortgage Disclosure Act (HMDA).

After ten years of work implementing the CRA through sound community lending partnerships, I can say that much has been accomplished. Through the National Training and Information Center, of which I am Executive Director, we have assisted community-based organizations in developing over $2 billion in CRA lending partnerships since 1984 alone. These lending programs have been strong. Already, three Chicago banks have lent about $150 million through a Neighborhood Lending Program. The default rate on these loans has been below one percent. Recently, the three banks --- First Chicago, Harris Bank, and Northern Trust --- committed another $225 million to expand the Program. In many other cities, other lenders have experienced the same positive results in partnership with community groups.

However, all these accomplishments don't begin to add up to the level of housing grants and loans cut out of the federal budget in recent years. If banks are to play a more aggressive role responding to the credit needs of inner cities in a sound manner, stronger encouragement from the federal government will be needed. Redlining studies in Atlanta, Detroit, and New York City recently reconfirmed what we all know: many lenders still don't accept an obligation to reinvest inner-city deposits in sound inner-city loans.

Mandatory disclosure of individual banks' CRA ratings is a

necessary but very small step toward expanding enforcement of the CRA. We already know that over 95 % of regulated banks get excellent or good CRA ratings. As a result, the entire ratings system lacks credibility. Disclosing individual ratings of lenders would add to this credibility gap, and make it that much more likely that regulators would actually develop a meaningful and credible ratings system. However, in and of itself, disclosure of ratings will do hardly anything to improve compliance with the CRA, because we already know the ratings are meaningless.

The most effective step this Committee could take to end redlining would be to expand the Home Mortgage Disclosure Act to require lenders to disclosue their origination of business loans. HMDA data on housing loan originations already gives citizens organizations and regulators information that is needed to improve a banks' mortgage lending record. However, similar data for business lending is simply not available. As a result, in neighborhoods across the country, community groups have been able to create a new dynamism in neighborhood housing markets, while inner-city business strips continue to stagnate. The greatest challenge in the next decade of CRA is to create effective models for lenders to contribute to inner-city economic development, just as the last decade of CRA created dozens of models for banks' contributions to sound housing development.

Attached to my testimony is a model business disclosure ordinance that was enacted in Chicago over ten years ago. This law has not resulted in undue burden to any lender, but it has

resulted in commitments by lenders to invest tens of millions of dollars in sound neighborhood economic development projects. The work of organizations like the Chicago Association of Neighborhood Development Organizations (CANDO) would be much harder without this commercial loan disclosure.

Finally, this Committee should resist any attempt on the part of lenders or regulators to create a "safe harbor" for lenders submitting applications that can be challenged under the CRA. The Federal Reserve Board in particular is promulgating the notion that CRA's purposes would be better served by preventing community groups from using the applications process and formal CRA protests to discuss CRA issues with some or all lenders.

The Board's proposal, if adopted by the Congress, would eliminate the very provision of CRA that has worked most effectively. There is no question that each of the federal regulatory agencies has done a lax job of enforcing CRA in the last decade, as evidenced by the fact that less than ten out of 50,000 bank applications were denied by the regulators on CRA grounds. The only reason lenders have taken CRA seriously is that they knew citizens had the right to challenge their record of refusing to reinvest local deposits. If this right is removed or weakened, it will send a clear mesage that banks no longer have to worry about accounting to the public on their lending record.

The CRA challenges that have occurred in recent years represent only a small percentage of all the applications that could have been protested under the CRA. In my view, all of the 100 or so CRA protests NTIC has been involved in have been

substantive. Once the issues we were concerned about were addressed, we were able to develop cooperative, sound, and profitable relationships for our financial institution partners. These lenders that are now doing a good job don't need a safe harbor, because no community group would protest their application.

There have been only a handful of instances where lenders have had applications challenged more than once, and in each case this is because the lender never took the original complaint seriously. If anything, lenders need a "safe harbor" from the Federal Reserve Board. I have repeatedly stated that the Federal Reserve Board should not have denied the application of Continental Bank of Illinois, because I felt that bank was improving their CRA record. So if you look at the specific examples, I think you'll find that lenders that really have taken CRA seriously receive positive recognition from community groups and don't need a "safe harbor" provision that would simply result in abuses by lenders in noncompliance with the CRA.

Thank you again for this opportunity to submit this supplemental testimony on this extremely important matter.

Chicago Tribune
35¢ Monday, May 15, 1989

The payoff in bank reinvestment . . .

In the early '70s, Chicago activist Gail Cincotta made such an uproar about the lack of neighborhood investment by city banks that Congress listened. It passed the Community Reinvestment Act in 1977 to force banks across the country to lend in their local areas, especially low-income minority ones.

For years enforcement was apathetic. The new law finally had some impact in 1983, when First Chicago announced plans to buy American National Bank. Cincotta and others considered challenging the merger, as the reinvestment act provided. Instead, they negotiated a precedent-setting, $100-million neighborhood lending program.

Today, Chicago's major banks realize it's in their self-interest to invest in the community. They have learned through experience that neighborhood lending is not a money-losing proposition, and that the health of their institution is directly related to the community's vitality.

As a result, arm-twisting by community groups has been replaced by cooperation. Banks are now trumpeting their renewed participation in neighborhood lending programs. First Chicago has announced that it will make $150 million available over the next five years for housing and small-business loans in low- and moderate-income neighborhoods. Harris Trust, Northern Trust, LaSalle National and Continental Bank recently renewed commitments or made new ones aimed at financing development in neighborhoods.

Part of the banks' eagerness is due to an undeserved blow that Continental received in February from the Federal Reserve Board. After a 14-month review, the Fed rejected Continental's bid to buy a small Arizona bank, allegedly because Continental hadn't lived up to the reinvestment law. The Fed's action outraged people like Cincotta, who defend the bank's lending record. Although Continental appeared to be the victim of a regulatory turf battle, the message for some was Washington's new zeal in enforcing the law.

Whatever the motivation, it's the results that matter. The money is helping to provide moderately priced housing, rehabbed shopping strips and hope to once-neglected neighborhoods. In the past five years, First Chicago alone loaned $75 million for 2,800 housing units and 130 commercial spaces.

In other cities, the war between banks and community groups is still raging. In Chicago, the two are working together for their mutual health.

. . . and how Daley can make it grow

The partnership between banks and community groups discussed above is paying off for Chicago's neighborhoods, but the dividends will be far greater if Chicago's government—and the governments in Springfield and in Washington—will join the team.

Chicago's City Hall, in particular, has been more of an enemy than an ally.

A barrage of city, state and federal laws and policies drive up the price of rebuilding in old neighborhoods, wasting huge chunks of the available bank financing. Meanwhile policies that can supplement the loans without costing taxpayers a penny are ignored.

If Mayor Daley wants to give Chicago a big boost cheaply and quickly, before he has to run again, he can use his formidable political capital to make that private capital work better. Here's what he should do:

● First, change the notorious city building code. The latest proof of the severe penalty it slaps on Chicago comes from Bethel New Life, a nonprofit development and service agency in a depressed West Side area. The contractors who are building modest, $60,000 townhouses for Bethel have built the same homes in the suburbs for $12,000 less. The difference is the city code, which requires costly, obsolete, hard-to-install materials and extravagant, old-fashioned building methods abandoned years ago across the country. But not in Chicago, where a few unions have terrorized the city council into sanctifying the code. Bethel's director, Mary Nelson, has a proposal for Daley to present to the unions: Keep your obsolete code for big structures, if you insist, but use the model, safety-tested code developed by the national Building Officials and Code Administrators for residences of four units or less.

● Give vacant, city-owned lots to agencies that will use them for low-cost housing. The city now charges about $2,000 for each lot, a foolish way to try to make money. The longer a lot is vacant, the longer it's off the tax rolls—and the more the city has to pay to clean up after the scum who use it for illegal dumping.

● Waive, for low-cost housing developers, the sewer-connection fees, water bills and other fees accumulated by deadbeat owners of abandoned property, a cheap way to provide a subsidy that can total $3,000 per lot.

● Loans given by the city under the now-defunct federal Urban Development Action Grant program are coming due. Recycle this money into a revolving, low-interest loan fund for neighborhood development projects, supplementing the market-rate loans available through the bank reinvestment programs.

● The $100 million that Chicago gets annually in federal Community Development Block Grants is often allocated for long-range projects, with payouts stretched over many years. A number of cities funnel each year's unused portion into short-term loans to help with start-up costs of community-based development projects. These cities earn interest on the money and get a stronger economy to boot. Chicago doesn't do this, and it should.

● Work to repeal the federal Davis-Bacon law and its state equivalent. They force up costs and stifle job growth by forbidding contractors to pay less than prevailing wage rates, exceptionally high in this area.

● Lobby in Washington to extend the federal tax credit for investors in low-income housing.

● Lobby in Springfield for laws to speed the transfer of tax-delinquent, abandoned property to new owners.

This agenda will offend a few narrow special interests. It will please a much broader cross-section of the city, creating new housing, jobs and tax revenue. For a strong mayor, it is politically achievable.

NATIONAL TRAINING AND
INFORMATION CENTER
954 W. Washington Blvd.
Chicago, IL 60607

ORDINANCE

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF CHICAGO:

SECTION 1. Pursuant to the provisions of the Illinois Constitution of 1970, Article VII, Section 6(a), the Municipal Code of Chicago is hereby amended in Chapter 7 by repealing Sections 7-30, 7-31, 7-32, 7-33, 7-35, 7-36, 7-37, 7-39 and 7-40, and by substituting therefore the following new Sections to read as follows:

MUNICIPAL DEPOSITARIES

7-30. It shall be the duty of the Comptroller at least once in each year before the first day of December to advertise for bids from national and state banks and federal and state savings and loan associations for interest upon the funds of the City of Chicago and the Chicago Board of Education to be deposited in banks and savings and loan associations.

Such bids shall be reported by the Comptroller to the City Council for its information and consideration not later than the 15th day of December of each year, to the end that an award or awards may be made upon such bids by the City Council before the beginning of each fiscal year.

Such awards shall be made to the highest and best responsible bidder or bidders. The City Council shall have the power to reject all bids and to designate as many depositaries as it deems necessary for the protection of the City's interests. Only regularly organized state or national banks insured by the Federal Deposit Insurance Corporation or federal or state savings and loan associations insured by the Federal Savings and Loan Insurance Corporation may be designated as depositaries.

7-31. In advertising for bids from regularly established banks and savings and loan associations for interest upon funds to be deposited in such banks or savings and loan associations, it shall be the duty of the Comptroller to inform the prospective bidders that for the protection of the public interest, awards will be made only to federally insured national and state banks, and to federally insured federal and state savings and loan associations located in the City of Chicago.

7-32. It shall be the duty of the Comptroller to ask for special bids for interest upon time deposits and/or certificates of deposit of City and school funds.

7-33. It shall be the duty of the Comptroller to obtain with each bid for interest upon City and school funds copies of the last two sworn statements of resources and liabilities of the bidding bank or savings and loan association as reported to the state or federal authority charged with the supervision of such banks or savings and loan associations and to present

(over)

said statements to the City Council with such bid. When requested to do so by the City Council, the Comptroller shall obtain from time to time from the banks and savings and loan associations to which awards are made copies of all reports of condition made in response to the regular calls by the state and federal authorities. Together with the receipt of bids and sworn statement of resources and liabilities as aforesaid, the Comptroller shall require of savings and loan associations submitting bids such reports, data, and information as to the financial stability of the bidder as will assist in determining its compliance with standards promulgated by resolution of the City Council for savings and loan depositaries.

7-34. With each bid for interest upon City and school funds, the Comptroller shall obtain, in a form prescribed by him from each bidder, the lending and deposit information for its home office and for each branch office or facility the following information:

a) Residential lending information: The following information to be reported on residential loans shall be classified separately for property containing (1) dwelling units for not more than four families and condominium and cooperative units; and (2) dwelling units for more than four families in the aggregate. Only loans closed within the previous calendar year shall be reported.

i) The number and total amount of all loans made on residential property within the City of Chicago.

ii) The number and total amount of all loans made on residential property outside the City of Chicago, but located in the six county Chicago Standard Metropolitan Statistical Area (SMSA), which includes DuPage, Kane, Will, McHenry and Lake.

iii) The weighted average effective interest rate for all loans made on residential property within the City of Chicago.

iv) The weighted average effective interest rate for all loans made on residential property outside the City of Chicago, but located in the six county Chicago SMSA.

v) The weighted average down payment as a percent of all loan amounts made (1) within the City of Chicago as classified by census tract; and (2) outside the City of Chicago, but limited to the six county Chicago SMSA.

vi) The following data on conventional and FHA-VA residential loans shall be reported for each census tract within the City of Chicago:

r) The number of:
- conventional real estate loans
- FHA/VA real estate loans.

(over)

b) The total original amount of:
- conventional real estate loans
- FHA/VA real estate loans

c) The weighted average down payment as a percentage of:
- conventional real estate loans
- FHA/VA real estate loans

d) The average amount of:
- conventional real estate loans
- FHA/VA real estate loans

e) The weighted average effective interest rate for:
- conventional real estate loans
- FHA/VA real estate loans

f) The weighted average term in years for:
- conventional real estate loans
- FHA/VA real estate loans

vii) The number and total amount of all construction loans made on residential properties within each census tract in the City of Chicago,

viii) The number and total amount of all home improvement or rehabilitation loans made on residential properties within each census tract in the City of Chicago.

b) Consumer lending information:

i) The number and total amount of all consumer loans made within the City of Chicago.

ii) The number and total amount of all consumer loans made within each census tract in the City of Chicago.

iii) The number and total amount of all consumer loans made outside Chicago but limited to the six county SMSA.

c) Commercial lending information:

i) The number and total amount of all commercial loans made within the City of Chicago.

ii) The number and total amount of all commercial loans made within each census tract in the City of Chicago.

iii) The number and total amount of all commercial loans made outside Chicago but limited to the six county SMSA.

d) Savings and checking account information:

The number of savings accounts and checking accounts and the total dollar balances in the savings and checking accounts, stated separately, as of December 31 for each census tract within the City of Chicago.

(over)

e) OPTIONAL - Each bidder may submit such additional material as is deemed relevant to consideration of his bid. For example, such additional material may include specific information as to the activity during the preceding calendar year of the bidder and its corporate affiliates in:

i) The interim financing of low and middle-income housing in the City of Chicago.

ii) The purchase of City of Chicago, Board of Education, and Public Building Commission bonds and Board of Education tax notes and warrants.

7-34.1. With each bid for interest upon City and school funds, the Comptroller shall obtain signature by either the Chairman of the Board, Chief Executive Officer, or an officer acceptable to the City Comptroller, of the bidding bank or savings and loan association on the following pledge:

We pledge not to arbitrarily reject mortgage loans for residential properties within a specific geographic area in Chicago because of the location and/or age of the property, or in the case of proposed borrower to arbitrarily vary the terms of those loans or the application procedures for those loans because of race, color, religion, national origin, age, sex or marital status. In addition, we pledge to make loans available on low and moderate income residential property in the neighborhoods of the City of Chicago within the limits of our legal restrictions and prudent financial practices.

7-35. No money shall be deposited in any bank or savings and loan association until it has been designated by the City Council as a depositary. The City Treasurer shall deposit, daily, all monies received by him as City Treasurer during the banking hours and all such monies as he may have received on the day previous after banking hours, in one of the banks or savings and loan associations which may have been designated by the City Council as depositaries pursuant to law.

7-36. The Comptroller may designate from time to time, for such period of the fiscal year as he deems advisable and for the best interests of the City, one or more of the depositaries selected in accordance with law as an active bank or active banks and to rescind such selection or selections at any time when in his judgment such change should be made, but no bank shall be selected as an active bank unless its aggregate capital stock and surplus at the time it is accepted as a City depositary is five hundred thousand dollars or more.

7-37. During the period for which any such depositary of City and school funds shall be designated as the active bank under the provisions of Section 7-36, the Treasurer shall deposit all monies received by him in such active bank and shall draw his checks upon such active bank to pay warrants drawn upon him.

School funds may be deposited in any such bank in an account separate from City accounts and the title of the account so established shall appropriately describe the same as school funds.

(over)

CONSUMER BANKERS ASSOCIATION *The Association for Retail Banks and Thrift Institutions*

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June 5, 1989

SUMMARY OF
CONSUMER BANKERS ASSOCIATION TESTIMONY
ON THE
COMMUNITY REINVESTMENT ACT

The CBA testimony before the Senate Subcommittee on Consumer Affairs regarding CRA reviews Congressional and agency developments in this area since last summer. These developments include a Senate Banking Committee reform initiative, the Federal Reserve's draft guidelines and Continental Bank decision, the joint CRA policy statement issued by the federal regulators and Senator Metzenbaum's bill, S. 909. CBA concludes that these developments, some of which are progressive in certain respects, fail to satisfactorily address the procedural inequities and abuse experienced by banks under CRA, especially in the applications process.

CBA recommends a de-emphasis of the applications stage engagement of banks, regulators, community groups and others. We suggest that encouragement of ongoing interaction and involvement of these parties outside of the applications process would better serve the objectives of CRA. To these ends, CBA suggests that the following package of refinements might achieve positive results:

(i) Interagency uniformity and consistency in making CRA evaluations;
(ii) Greater regulatory and community guidance concerning community assessments;
(iii) Maximum time-frames and other reasonable procedural limitations on public involvement in the applications process;
(iv) Congressional hearings and regulatory studies of the impact of relevant non-bank underwriting and disinvestment issues;
(v) Some summary form of public disclosure of the agency's evaluation of CRA performance; and
(vi) Positive incentives for exemplary CRA performance, such as a break on risk-based capital requirements for CRA-activities and a safeharbor from application protests for one year after receiving a satisfactory CRA rating.

STATEMENT
OF THE
CONSUMER BANKERS ASSOCIATION
BEFORE THE
SUBCOMMITTEE ON CONSUMER AFFAIRS
OF THE
BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE
UNITED STATES SENATE

June 6, 1989

Introduction

The Consumer Bankers Association* is pleased to have this opportunity to present our views on S. 906, the "Government Check Cashing Act of 1989" and S. 907, "Basic Banking Services Access Act of 1989," both authored by Senator Metzenbaum.

In fact, CBA has long been interested in the challenge of making banking services more universally accessible. Five years ago, CBA established a "Basic Banking Task Force", which was designed to explore ideas for providing such services. This work is being continued this year in the Community Development Task Force. This Task Force will look at, among other issues, direct deposit, "lifeline" or basic banking, and government check cashing.

Scope of Problem

Currently, recipients of government checks have several options for turning their funds into cash:

First, most recipients of government checks have regular checking accounts. It is important to recognize that government checks are in the normal course made payable to contractors, vendors, civilian employees, members of the military, former civilian employees, other retirees, veterans, and taxpayers entitled to tax refunds, to name just a few. The overwhelming majority of these individuals have regular checking accounts and have no need for the protection of S. 906. Indeed, according to the January 1988 issue of Consumer Reports, 80% of all adults in the U.S. have bank accounts. A study on

* The Consumer Bankers Association was founded in 1919 to provide a progressive voice for the retail banking industry. CBA represents approximately 800 federally insured banks and thrift institutions that hold more than 80 percent of all consumer deposits, and more than 70 percent of all consumer credit held by federally insured depository institutions.

Government Check Cashing Issues completed by the General Accounting Office on October 1988 found that only 17% of the 93 million families in the United States do not have checking accounts.

Second, our information shows that a majority of the commercial banks in the country currently offer basic banking services to the public -- specially designed deposit accounts that fill basic needs at low or no cost to the consumer. The terms of these accounts vary from bank to bank on the basis of each institution's internal costs and its perception of the needs of its community. We feel it would be counterproductive to mandate that banks provide a specific type of basic banking account: since most banks already offer some type of basic banking, such legislation is not needed. In addition, outlining a specific account ignores the very different needs and capabilities of both depository institutions and customers. A small bank in a rural community should be able to tailor its basic banking account to fit its customers' needs, as should a large institution with inner city branches.

While CBA is opposed to mandatory lifeline or basic banking accounts and would like to register our opposition today, we will focus primarily on government check cashing since that issue has been the more controversial of the two. In addition to cashing checks for customers with regular or lifeline checking accounts, many of our members voluntarily cash government checks for non-customers. According to the October 1988 Government Accounting Office study, 86% of banks and 56% of thrifts in the country cashed U.S. Treasury checks for non-customers.

Finally, an option that is frequently the choice of consumers is the use of the non-depository check cashing companies that have proliferated throughout the country and are regulated by many but not all states. Possibly, part of Senator Metzenbaum's perception that a problem exists with respect to government check-cashing arises from the fact that the State of Ohio does not regulate such entities.

These businesses provide a needed service to consumers. However, the check cashing industry could be more tightly regulated than is currently the case in many states. Banks are highly regulated - the check cashing industry should be as well. In New York, check cashing is regulated by the State Department of Banking. Fees are limited to 3/4 of 1% of the face value of a check. Annually, New York check-cashers handle more than 18 million checks totalling over $5 billion. The check cashing industry is thus a significant factor in the cashing of government checks. Even if banks were required by law to cash government checks for non-customers, the check-cashing industry would still be a significant factor. We therefore feel that states should be encouraged to look closely at the state laws regulating the check cashing industry.

The city of New York has been an innovator in seeking ways to reduce losses from fraud and theft, both to banks and to the recipients of government checks. Through an electronic payment funds transfer system, in connection with a New York City bank, over 8 million welfare transactions providing over $1.6 billion of benefits are completed each year. This system reduces fraud and government costs and delivers needed services for reasonable fees. It also benefits elderly and disabled people who find it difficult to make a trip to the bank to deposit or cash a check.

Experiments patterned on the New York experience might well provide the optimal solution to any problems that exist with unregulated check-cashers.

Concerns Regarding Current Draft of S. 906

Overbreadth. The Consumer Bankers Association hopes to play a constructive role in helping to determine whether legislation is required and, if so, in fashioning legislation properly tailored to the problem at hand. Nevertheless, we must admit that we have major philosophical and practical concerns regarding S. 906 as it is currently drafted. We have hinted at some of these concerns above.

Our information indicates that approximately 8 billion government checks, constituting 20% of total check volume, are written annually. As currently drafted, government checks covered by S. 906 are limited to amounts of $1500 or less, but still include all federal, state, and local government checks below that amount. Even with the dollar limitation this amounts to billions of checks annually. The categories should be further limited in order to cut down on the potential for fraudulent checks being introduced into the system. Under the current language in S. 906, depository institutions would be required to cash all checks in the amount of $1500 or less issued by the U.S. Treasury, state governments, cities, towns and villages, public utilities, highway departments, housing authorities, hospitals, universities and colleges, and motor vehicle departments, to name a few.

The costs of processing all these checks are huge. U.S. Treasury payments alone total 700 million annually. Of these, between 500-525 million payments are made by check and the rest are direct deposit. Because the cost to Treasury of using paper checks is so high, the Treasury Department is conducting a study on the benefits of utilizing electronic payments. Treasury is also conducting a study to determine where checks are cashed. We feel that the legislation under consideration today is premature until this study is completed.

Operational problems

It costs money for a bank or savings and loan to cash a check, whether for a customer or a non-customer. A number of factors must be taken into consideration when attempting to quantify the costs to a depository institution for providing this service.

It is difficult to ascertain precisely how much it costs a given institution to cash and process a check (and costs vary from institution to institution and city to city). In computing this cost, a bank must include in its calculations all branch operating expense items, systems-related expenses, the salaries of tellers and other personnel and services such as check processing and check reconcilement. An informal survey of our members has given us a range of between $.60 and $3.50 as the estimated cost of cashing a single check, with the average cost estimate falling between $2.00 and $2.50. It is apparent from these estimates that apart from the separate and equally important issue of potential fraud losses from S. 906, the sheer operational expense of being required to cash checks for an unpredictable number of non-customers will be significant.

S. 906 would allow institutions to charge fees for this service which "do not exceed an amount needed to recover all related costs, including fraud losses, as determined by the (Federal Reserve) Board based on actual cost studies." CBA believes that the costs associated with cashing any kind of check, including government checks, are virtually impossible to quantify. Our own research, and that of the GAO was unable to come up with a figure on cost in this area. In addition, costs vary greatly and are determined by such factors as geographical location and size of an institution. Therefore CBA feels that it will be very difficult for the Fed to come up with a figure for reimbursement that will be fair to all institutions and customers.

We would also like to note that the Federal Reserve Board will soon complete a study on Regulation CC which implements the Funds Availability Act. We understand that the study will show not only that the compliance costs were very high, but also that the new statute did not appreciably change the funds availability policy of a majority of institutions. Most banks were already making funds available within the mandated schedule. New operational changes, disclosures, training requirements etc., however, necessitated expenditures, even if the bank's Funds Availability policy did not change or was slightly modified. We are concerned that enactment of S. 906 will have the same results - higher costs with no commensurate consumer benefits.

In addition to cost, S. 906 presents a number of logistical problems. Near the beginning of each month substantial numbers of non-customers would come to depository institutions in order to cash government checks. Banks and savings and loan associations will in many cases need to arrange for additional tellers and cash on hand,

and thus additional armored cars and bonded messengers. These services and costs will vary from bank to bank and city to city, depending, among other things, on the availability of competent and trustworthy part-time personnel, the ability of the institution to use "excess" personnel from other areas, the adequacy of vault space and teller stations and the number and dollar amounts of checks presented. For institutions located near military bases or other government facilities, for example, these costs will be considerable.

While some banks will be able to employ part-time personnel to service the influx of non-customer check-cashers at the beginning of each month, others will have to choose between adding full-time employees, at greater cost, or providing inadequate service. Many of CBA's institutions voiced concern that longer lines on certain days of the month and the increased volume of transactions would create a decrease in service to regular customers. This would be especially true for banks or branches located near military or other government facilities and those in low and moderate income neighborhoods. Thus, S. 906 may have the anomalous result of reducing the overall quality of service in the very areas it is designed to serve.

To illustrate the potential impact on small institutions, we would like to cite the experience of a small commercial bank in Florida which has in the past voluntarily cashed government checks for non-customers. Recently, on one day, despite having set aside 5-1/2% of its total deposit funds in its vault as a non-earning asset, it ran out of cash, and additional funds had to be transported from other institutions. Another day, 1,500 of 1,700 persons who appeared at its teller windows were non-customers cashing government checks. In other words, this increased the traffic in the bank from its daily average of 200 to 1700 people.

Likelihood of Fraud and Other Credit Losses

Fraudulent or stolen government checks are big business. Even with picture-perfect identification cards (and it is not yet clear exactly what the identification and registration procedures would be under S. 906), the prospects of massive fraud losses resulting from S. 906 loom large. A legitimate i.d. provides no protection against a stolen and altered or fraudulent check.

Provisions of the recently enacted Expedited Funds Availability Act requiring next business day crediting of government checks for customers with deposit accounts provoked a great deal of concern in the banking industry on the likelihood of fraud losses. The concern was warranted. Banks are beginning to see increases in fraud losses in this area.

Indeed, the Chairman of the Federal Reserve Board has requested Congress amend the Expedited Funds Availability Act in order to reduce this type of risk. The Federal Reserve Board's proposal would amend the Act to authorize the Board to establish regulations allowing banks

(i) to limit the amount that can be withdrawn on checks that must have next day availability, (ii) to delay the availability of funds in the event they have reasonable cause to believe that a check is uncollectible. In supporting these amendments, the Federal Reserve Board stated: "We are aware of a number of cases of this type of check fraud. Further, we believe that forgery of these types of checks would not be difficult."

These concerns are not alarmist. Even in the absence of legislation requiring check-cashing for non-customers or expedited funds availability, and despite procedures designed to minimize fraud losses, at least two of our member institutions reported losses approximating $1 million last year on fraudulent U.S. Government checks cashed for customers.

Fraud does not constitute the only credit risk in cashing government checks. Like other checks, government checks are occasionally stopped or dishonored for a variety of reasons. Under S. 906 a bank cannot wait to ascertain whether a check will clear prior to cashing it. Thus, a bank's only recourse under S. 906 would be to attempt to collect the amount from a person who does not have a customer relationship with the institution. A total loss will generally result.

Many questions remain concerning both the feasibility of and the need for mandatory cashing of government checks. As we stated earlier, last year's General Accounting Office study concluded that the vast majority of Americans have access to check cashing services. Because the size, capabilities and constituencies of depository institutions throughout the country vary greatly, it would be extremely difficult to design legislation that would effectively deal with problems related to access to check cashing services in the few areas where such problems exist.

There are alternatives to mandatory government check cashing that would be more effective in addressing this issue. Such initiatives include linking check cashing services to basic banking accounts, and working towards a wider acceptance of electronic benefits payments (direct deposit). The latter would reduce the costs to both the government agency issuing the payment and the depository institution, and would reduce fraud and theft. Elderly and handicapped individuals would certainly benefit from this step. As we stated earlier, the U.S. Treasury Department is conducting research in this area, including a pilot program in Baltimore.

Check cashing at post offices or other government offices should be evaluated. Post offices serve as an arm of the government and are located in convenient locations throughout the country. In addition, they are used to handling large amounts of cash.

Conclusions:

Because of the concerns outlined above, CBA and its members oppose S. 906 and would most likely oppose any other legislative efforts to mandate that depository institutions cash government checks for non-customers, or to mandate that they offer basic banking accounts. We believe that this is an inappropriate solution to the problem of improving access to check cashing services for the disadvantaged. As we stated earlier, the magnitude of this problem is still unclear.

We greatly appreciate the opportunity you have afforded us to offer our views on this subject.

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Senate President Pro Tem
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Executive Director
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Statement Of

David A. Roberti

President pro Tempore

California Senate

On Behalf Of The

National Conference of State Legislatures

To The

Senate Committee on Banking, Housing, and Urban Affairs

Subcommittee on Housing and Urban Affairs

U.S. Senate

June 6, 1989

Denver Office: 1050 17th Street • Suite 2100 • Denver, Colorado 80265 • 303/623-7800

19-310 - 89 - 7

Mr. Chairman and Members of the Committee, on behalf of the National Conference of State Legislatures, it is a pleasure to endorse S.566, the National Affordable Housing Act. This legislation constitutes an important first step in meeting the Nation's housing needs.

We all know the dimensions of the issue. How many times do we have to repeat the litany of problems related to homelessness, inadequate rental housing for low and moderate income families, and declining home ownership?

To repeat what we all know the be true, the growing number of homeless Americans testifies to the failure of the federal government's current housing policy. Hundreds of thousands of Americans are homeless, living and dying in streets and alleys, in bus stations and migrant shacks, in abandoned automobiles and in vacant buildings. This is not just a policy failure. This is a moral wrong in a Nation as wealthy as the United States of America.

Again, as you know, low and moderate income families are faced with a sharp decline in affordable rental housing. The quality of the affordable rental housing stock is also declining.

Today, ten million American families live in inadequate or overcrowded units. Twenty-four million families live in units classified by the Federal government as having a "housing problem".

Finally, as you know too well and have heard too often, the aspirations of young families for homes of their own are fading. Soaring housing costs coupled with high interest rates are pushing many young families out of the housing market. Levels of home ownership have fallen every year since 1980.

Not all recent developments have been negative. Americans respond to a crisis.

While the federal government has been retreating from the crisis in housing, the states have been active. True to their nature as "laboratories of democracy," the states have developed an array of innovative and successful policies. They have invented new programs, invested new monies, developed new partnerships with the private and non-profit sectors, and brought new energies to the effort to making affordable housing available to all citizens.

Unfortunately, even with the best efforts of the states and communities directed at these problems, more resources are required. The federal government must increase its financial commitment to providing affordable housing. Only the federal government can generate the resources required to address the housing crisis. But, these resources must be employed effectively, with flexible programs that address the particular housing problems of particular states and localities and with programs that leverage private and nonprofit efforts.

Above all else, the resources and creativity of federal, state, and local governments must be pooled. This Nation's housing crisis can only be resolved through a partnership among states, localities, community groups and the federal government of the kind contemplated in S.566. Through such a partnership, a new housing policy can be developed: one that builds upon the hundreds of new housing initiatives pursued by states and communities throughout the 1980's.

Such a collaborative effort will also help ensure the stability of affordable housing programs, by building a program base and a political constituency from the bottom up through neighborhood, community, state, finally to the federal

level. In this connection, it is vitally important to build up state programs with sidewide constituencies to ensure broad-based support for low-income housing programs into the next century. The potential of state involvement has too often been neglected. If housing is regarded as only an urban problem, it will not receive the attention and resources that it deserves. In fact, the housing crisis affects all Americans, urban, suburban and rural.

States must play the crucial role of mobilizing a coalition of support for housing programs across our many and varied communities and among government, business, labor, and nonprofit leaders. It is just such a partnership that is contemplated by S.566 and endorsed by NCSL.

Specifically, NCSL endorses with enthusiasm provisions in the bill to establish a HOME corporation and Housing Opportunity Partnerships that will encourage and financially support housing initiatives by states, localities, and non-profits. Such partnerships can address both home ownership needs and the need to make affordable and decent housing available to low income households.

Housing opportunity partnerships should build on current state and community efforts to assist families, particularly low and moderate income families, in buying their own homes.

As the National Housing Task Force reported, the homeownership rate has dropped in the 1980s, especially for those below age 34, and those with incomes below the national median of $30,000. Young families must pay a far higher proportion of their income today to buy a home compared to 10 or 15 years ago. High carrying costs discourage families looking to buy. High down payments are even more discouraging.

States, of course, have responded. Over thirty states provide assistance to promote home ownership. Housing trust funds, established by fifteen states, have successfully expanded home ownership opportunities for low and moderate income families. HOP should build on and expand these state initiatives, by allowing states sufficient flexibility to address their particular homeownership problems.

Flexibility, however, must be combined with a federal commitment. The costs associated with financing a national effort to assist home buyers far exceed state resources. The HOME corporation should over time develop resources required to provide long-term, predictable funding for states, localities and non-profits to finance a variety of homeownership programs.

Additional federal resources should also stimulate innovation and creativity at the state and community levels. For example, NCSL has recommended that more states consider programs similar to Connecticut's Down Payment Assistance Program, that provide financing for downpayments for low-income families and other first-time homebuyers.

New York's Nehemiah Plan is another good example of state and local governments working in collaboration with non-profit corporations to assist low-income families to become homeowners. The HOME corporation would provide financing for other states and localities to follow New York's example and adapt it to local circumstances.

Housing opportunity partnerships should also build on current state and community efforts to provide rental housing to low and moderate income households. In 1988, California voters approved $450 million in general obligation bonds for a variety of housing programs, the bulk of which will build new rental housing.

Millions of families are paying exorbitant amounts of their income for rent, living in overcrowded conditions, or facing the imminent threat of homelessness because of a lack of affordable rental housing. Concomitantly, the federal government has drastically reduced its support for programs to provide housing assistance to low and moderate income renters.

Several problems are combining to threaten the availability of rental housing for low-income families. First, if federal housing contracts and Section 8 certificates begin to expire in the 1990s, fewer and fewer rental units will be reserved for low and moderate income families. Second, the decline in low-income housing production, resulting from federal cutbacks, is being felt. In many jurisdictions residents who are fortunate enough to receive federal housing assistance through such programs as the Section 8 Existing Housing Certificate program cannot find housing units in which to use the certificates because of the acute shortage of affordable housing. Finally, private sector owners of federally subsidized housing constructed over the last 20 years may leave these subsidy programs, during the subsidized mortgages, which threatens thousands of families with displacement and homelessness.

In response to these problems, states are currently employing a variety of mechanisms to provide financial assistance to make rental housing affordable for low and moderate income families. Among the policies that states have found to be successful are creating housing trust funds and offering below-market loans for the construction or purchase of low-income rental housing. In Minnesota, the legislature authorized the state to buy low-income rental properties when federal contract responsibilities expire.

The states have also recognized the important role that non-profit organizations should play in developing rental housing resources. Non-profit

participation is necessary in order to increase community involvement and accountability in the design and management of the housing, to shield this housing from the cost escalating pressures of the private, profit-motivated housing sector, and to insure the permanent use of such housing by low income persons.

The state response, however, will not be adequate in the face of multiple problems without the commitment of federal resources, through the HOME Corporation, contemplated in S.566. With the passage of legislation, however, HOP initiatives should build upon the state initiatives of the 1980s.

Housing opportunity partnerships, because they will be flexible, should encourage state rental housing programs that are community-based and that leverage nonprofit involvement. With HOP and state matching efforts, a variety of approaches are possible. States may employ capital grants, low-interest loans, predevelopment grants, seed money and technical assistance for the development of permanently affordable rental housing resources by nonprofit, community-based organizations.

In addition to the HOME and HOP program, S.566 contemplates other important housing initiatives.

With respect to tax incentives, NCSL concurs that the low-income housing tax credit and mortgage revenue bond programs must be continued and enhanced. After an expected slow start-up period, the low-income housing tax credit program has proved valuable. States have learned how to use the credit efficiently to produce sorely-needed rental housing for low-income families. California adopted a state housing tax credit which enhances this valuable housing tool. Similarly, the states effectively use mortgage revenue bonds to assist families buying their own homes and to encourage the production of

rental housing. The bill also provides that first-time homebuyers may use individual retirement account and 401(k) retirement funds to invest in a new home. These are ideas that may significantly boost homeownership.

The bill also makes provisions for the housing needs of special populations, the elderly, the handicapped, and the homeless. State involvement with housing programs for these special populations is important if such programs are to be coordinated with largely state-run programs providing health care, mental health care, and social services. NCSL also endorses the preservation of rural housing programs.

In addition to the HOP, S.566 provides for a rental credit program to meet the needs of low-income renters. The rental credit program is intended to combine the best features of Section 8 certificates and vouchers. NCSL strongly supports any effort to renew expiring vouchers and certificates and to preserve low-income housing.

The key, here, is not simply to reconfigure voucher and certificate programs. As you know, hundreds-of-thousands of privately-owned but federally subsidized units are in danger of being lost as contracts and certificates expire. The failure to make sufficient funds available could lead to sudden and catastrophic rent increases, displacement and even homelessness for low-income households. Presumably, the rental credit program proposed in S.566 implies sufficient federal commitment to preserve and expand the stock of federally subsidized rental units for poor and moderate income families.

In short, the National Affordable Housing Act is excellent legislation. In particular, the provisions for Housing Opportunity Partnerships and for a HOME Corporation should help build vitally-needed state commitments to low-income housing programs.

Without detracting from NCSL's overall enthusiasm for the bill, let me note a few concerns.

It has been proposed that the split of HOP funds between states and localities be amended. The bill currently provides for a 50/50 split between states and localities. Local government groups have demanded a 70/30 split favoring local governments. Such an amendment would make it much more difficult to generate widespread support among state officials for the program and to generate support among federal and state legislators from suburban and rural areas, for good reason. The housing crisis extends to most American communities, urban, suburban, and rural. The proposed 50/50 split already contemplates a heavy emphasis on urban housing problems. A 70/30 split would effectively cut-out too many mid-size and smaller communities, resulting not only in the neglect of their needs but also an erosion of the broad base of support for low-income housing which should be one of the primary purposes of this legislation.

For similar reasons, NCSL has concern about the proposed state/local split of homeless funds. Because many of the necessary support services, especially job training, health, mental health, and social services are administered by the states, funding ought to be adequate at the state level. NCSL again would recommend an equitable split between states and localities.

With respect to the 25 percent matching requirement, we think it should be made as flexible as possible, especially in the early years of the program, to ensure that a large number of states will participate. Some states with desperate housing problems, Louisiana for example, are also in desperate financial circumstances, making it difficult to come up with the match. The

low-income people in those states should not be ignored by the federal government.

NCSL's foremost concern is language in section 105, providing for the Secretary of the Department of Housing and Urban Development to approve local housing strategies. This section must be redrafted to ensure that it cannot be interpreted to allow the Secretary to deny funds based on a policy judgment about the state's or locality's housing and land-use policies. This would only be consistent with the Administration's policy on federalism. Section 105 should be clear that the Secretary's review should relate only to the completeness of the information provided.

Again, to return to the major point of our testimony, taken as a whole, S.566 is excellent legislation, well designed in concept and detail. Senator Cranston, Senator D'Amato and their staffs are to be commended for their work.

The National Conference of State Legislatures is prepared to work to see that S.566 is enacted into law and effectively implemented at the state level.

National Governors' Association

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E-4. HOUSING ISSUES AND NEEDS

4.1 Preface

The 1949 national policy of "a decent home and a suitable living environment for all Americans" must continue to be a major national priority for the 1980s and beyond. The nation is still far from reaching this goal, particularly in the area of affordable housing. Hence, a national housing goal is as important now as it was in 1949.

The national housing goal must remain a high priority for the federal government, as well as for states, local governments, and the private sector. Housing programs should be designed to encourage joint public/private efforts to finance, build, and maintain an adequate supply of affordable housing.

Current housing problems affect many sectors of the U.S. population, particularly the homeless, renters, and first-time home buyers. The size of the nation's homeless population has increased steadily, in part as a result of escalating housing costs, which have accelerated almost three times faster than incomes in the past fifteen years. Following a period of relatively stable rents, rental costs (adjusted for inflation) have increased at a steady pace since 1981, and now are at the highest level in more than two decades. Since 1980 there also has been a decline in the percentage of the nation's households owning their own homes, following increases in homeownership rates for thirty-five years.

4.2 Developing A New National Housing Policy

In order to respond to the nation's housing needs, a new national housing policy must incorporate a variety of goals, including a renewed federal commitment to housing, and the preservation and expansion of affordable housing. Meeting these goals will require active cooperation and collaboration between the private and public sectors, including federal, state, and local governments; housing developers, builders, managers, financial institutions, and investors; nonprofit housing organizations; religious and civic groups; and consumers of housing.

As a society, we must recognize that our highest priority is to ensure that low-income Americans are housed in adequate shelter. While part of a national and state housing policy may be directed to increasing economic opportunity, we must not forget that dependent populations and many working poor cannot secure decent housing without public intervention.

4.2.1 **Partnership.** A national housing policy must recognize that the provision of decent and affordable housing requires a partnership.

Neither the public sector nor the private sector alone can resolve the nation's housing problems. The federal government must develop a national housing policy that recognizes its basic responsibility to ensure that shelter is provided to low-income individuals and families, that the housing stock serving these citizens is preserved and added to, and that low-income individuals are provided with sufficient subsidies to afford the standard housing available in the marketplace. The states, local governments, the private sector, and consumers of housing also must contribute to efforts to address the issue of affordable housing. They must work together with the federal government to preserve the unsubsidized housing stock for low-income people and produce sufficient new single- and multi-family housing to meet increasing demand.

A comprehensive national housing policy must address a wide range of issues, including ways to preserve the nation's existing stock of affordable housing; provide reasonable levels of rental assistance to low-income households; respond to the nation's homeless population; expand the supply of affordable housing; encourage homeownership; increase enforcement of fair housing laws; and create a national housing partnership.

4.2.2 **Preservation of Affordable Housing.** Current federally subsidized housing will remain the core of the nation's low-income housing supply for decades to come. As its first priority the federal government must protect its substantial investment in the current stock of affordable housing. Over the years the

federal government has subsidized the construction of more than 2 million units of affordable housing, through the use of below-market interest rate and public housing construction programs. Much of this subsidized housing stock now is at risk, due to expiring use restrictions, sale of properties, mortgage prepayment, or physical deterioration. It is essential for the federal government to take creative steps to ensure the preservation of these units.

This threat exists in rural as well as urban communities. During the next five years, more than 300,000 housing units assisted by the U.S. Department of Housing and Urban Development (HUD) will become eligible for mortgage prepayment. Between 1988 and 1993, approximately 864,000 tenant- and unit-based rental subsidy contracts will expire or be subject to termination, along with the rental subsidies attached to 131,000 units of older HUD-assisted stock.

Meaningful solutions to the problem of expiring use restrictions and federal contracts will require considerable sacrifice. A variety of federal incentives tailored to individual market areas and owners must be considered to preserve the inventory of subsidized housing, including renewing subsidy contracts; allowing owners a higher rate of return on their investment; allowing owners greater access to appreciated equity and residual reserve accounts; providing grants and loans for capital repairs; providing tax abatements; and providing restricted sale to nonprofit housing organizations, housing finance agencies, or tenants. It is essential for the federal government to take creative steps to ensure the preservation of these units, in both urban and rural communities. For every unit that is not able to be preserved, the federal government should provide for a replacement unit in an area where the need is evident. While it will be necessary for the federal government to offer incentives to private owners, penalties should not be levied, lest future private sector investment in housing be further discouraged. The cost of preserving this stock could approach $750 million of new funding each of the next fifteen years.

Special attention also must be paid to the rehabilitation and replacement of public housing, which is a permanent source of low-income housing. Each year, approximately 70,000 units of public housing are abandoned, as a result of neglect and inadequate rehabilitation. In light of the long waiting lists for public housing in many communities, it is essential that resources be earmarked for preservation or replacement of the nation's public housing stock. Particular consideration should be given to expansion of mixed-income public housing developments, and to the conversion of HUD-owned foreclosed properties to scattered site public housing.

In addition, means must be found to preserve the large number of privately owned and unsubsidized units that are deteriorating, and to improve the large number of substandard units that still exist in the U.S. Many aging units are not renovated and maintained for low-income housing because the rents paid by tenants are not sufficient to cover the costs involved.

4.2.3 **Rental Assistance.** The second priority for the federal government must be to continue its key role in the subsidization of rental housing. A substantial portion of the nation's low-income population depends on federal rental subsidies, in the form of Section 8 certificates and housing vouchers. Without such assistance, these families and individuals would be required to spend an extraordinary portion of their modest monthly income on housing, far exceeding the national standard.

Gross rent (rent plus fuel, water, sewerage, and utilities) as a portion of income increased significantly between 1974 and 1982, and is still at a historically high level. The problem is particularly severe for younger Americans. In 1974, the ratio of median rent to income for households with heads aged twenty-five to thirty-four was 18.7 percent; by 1983, the ratio had increased to 25.4 percent.

The West and the Northeast have experienced the most significant rent increases during the past ten years. Between 1981 and 1987, real gross rents in the West increased by nearly 19 percent, and those in the Northeast increased approximately 17 percent. The most rapid rent increases have been at the low end of the market. Currently, one-fourth of the poor spend over three-fourths of their income on rent.

As a result of the extraordinary rent burden on low-income households, the federal government must increase its funding of rental assistance. This assistance amounts to the difference between 30 percent of a tenant's adjusted income and local fair market rent. Because the rental allowance for those families on public assistance has never been adequate, it is preferable for such assistance to be provided through housing subsidy programs.

4.2.4 **Expanding the Supply of Affordable Housing.** Efforts should be undertaken to preserve mechanisms currently available for expanding the supply of affordable housing. A wide variety of mechanisms currently are in place to encourage its development.

Between 1973 and 1983, 4.5 million units were lost to the nation's housing stock as a result of demolition or structural conversion. It is estimated that nearly half of these units were occupied by low-income renters. In 1980, the number of low-income renter households seeking affordable housing actually exceeded the aggregate number of units available to them for the first time in years, even though more than 1 million new, federally subsidized units of lower-income housing were added to the supply between 1976 and 1982. In recent years fewer than 25,000 units have been produced annually.

Although states can design and sponsor a wide variety of mechanisms to increase the supply of affordable housing, they are still dependent upon a number of critically important federal housing programs. These include mortgage revenue bonds, general obligation bonds, mortgage insurance programs, tax credits for low-income housing, and community development block grant funds. Preservation and enhancement of these mechanisms are essential to providing citizens with affordable housing.

4.2.5 **Expanding Homeownership.** Homeownership, especially for first-time buyers, should continue to be a key public policy objective for federal, state, and local governments. A widely embraced goal, homeownership has declined in the U.S. annually since 1981, following thirty-five years of steady increase. In recent years housing costs have accelerated at a much faster pace than incomes. For many Americans, homeownership can be achieved only with below-market mortgages underwritten by the federal, state, and local governments.

Although the portion of U.S. households owning their own homes increased between 1973 and 1980, homeownership has fallen since then, from 65.6 percent in 1980 to 64.0 percent in 1987. For many Americans, high down payment requirements and monthly carrying costs prevent homeownership. Increasing access to Federal Housing Administration (FHA) mortgage insurance and the Veterans Administration (VA) mortgage program can significantly expand homeownership opportunities. Increasing FHA mortgage limits and making adjustable-rate mortgages fully available to FHA and VA borrowers will help many Americans qualify for homeownership. In addition, allowing prospective home purchasers to draw on Individual Retirement Account (IRA) and other self-funded benefit plan monies can expand homeownership substantially. Further, a tax-exempt homebuyers savings account program -- modeled after the IRA program and allowing an exemption from federal taxes -- would greatly enhance homeownership opportunities.

Continuation of the federal Mortgage Revenue Bond (MRB) program for low- and moderate-income first-time homebuyers also is essential. The MRB is an important vehicle for the financing of homeownership in light of interest rates and housing costs that place homeownership out of the reach of many would-be first-time homebuyers. The Mortgage Credit Certificate Program also should remain an optional alternative to, not a mandatory replacement for, the states' use of mortgage revenue bonds.

To reduce the extreme effects of the money market cycle on mortgage availability, private lenders also should be encouraged to offer more flexible mortgages without precluding consumer choice of conventional financing. Federal regulatory agencies should monitor the growth of these new mortgage instruments and, where necessary, should consider limitations to protect lenders and borrowers alike against unacceptably high economic risks.

4.2.6 **The Problem of Homelessness.** The national housing policy must address the plight of the homeless. Homelessness is a growing national crisis. While there are no reliable data on the extent of homelessness in America, estimates range from 500,000 to 3 million homeless people.

Although in the past, most homeless people have been older, single men, the homeless population increasingly includes battered women, elderly poor, runaways, veterans, and -- most significantly -- unemployed people with their families. Homeless families with children are now the fastest-growing segment of the homeless population. The homeless also include the mentally and physically disabled and substance abusers.

Difficult economic conditions, long-term unemployment, shortages of low-income housing, reductions in federal expenditures for social service programs, and deinstitutionalization have exacerbated the problems of the poor and increased the numbers of homeless people. Although these

problems must be addressed in order to respond adequately to the causes of homelessness, the housing needs of this population call for immediate attention.

Throughout the country, both the public and private sectors are committing resources to the homeless population. The federal government, in cooperation with state and local efforts, must assume the financial leadership role in addressing this problem, specifically making the provision of permanent housing to the homeless a priority.

The federal McKinney Homeless Assistance Act has contributed significantly to states' efforts to address the problem of homelessness. However, it is essential that states have greater flexibility to administer McKinney Act funds according to local licensing requirements, funding cycles, site control schedules, and housing policies. Funding also is needed to enhance the routine collection of data at the local level on trends related to homelessness, to enable construction of single-room-occupancy and efficiency units for the homeless, and to promote effective integration of housing and social services.

While the McKinney Act includes provisions mainly for the short-term housing needs of homeless individuals, federal housing programs need to support permanent housing for the homeless. The homeless are not being adequately served by existing housing programs. Permanent housing for the homeless needs to become a priority. This can occur by expanding and preserving the permanent supply of affordable and decent housing and targeting slots in federally subsidized housing to those who are homeless or at risk of becoming homeless. Housing programs for the homeless should also reflect rural and urban variances.

Federally subsidized housing programs should be coordinated with service providers to ensure that homeless persons entering permanent housing receive the necessary special supports. These may include case management, counseling, or referral services. For those persons who are mentally ill, substance abusers, or otherwise disabled, these supports are especially important. Employment and training services are also essential for people who are homeless.

4.2.7 **Fair Housing.** The right of free choice in the housing market is protected by federal and state laws. Enforcement of federal fair housing laws is delegated to states that have comparable legislation. This augments the enforcement provisions of the federal law with the generally greater authorities the states possess. Effective enforcement of federal and state fair housing laws is an important step toward ensuring equal opportunities and preventing overt discrimination in housing.

However, there are some subtle barriers to freedom of housing choice that can be more difficult to identify and overcome, e.g., mortgage or insurance redlining, and exclusionary zoning practices. In addition, the market often does not meet the needs of those with special housing requirements, such as families with children and disabled persons, and consequently deprives them of the range of choice available to others. While federal and state regulations, enforcement mechanisms, and disclosure requirements are necessary tools to eliminate unfair housing practices, only through the active involvement and commitment of the private sector can the promise of equal opportunities in housing be fulfilled.

Unfortunately, enforcement of the federal and state fair housing statutes has been uneven, in part because of the federal government's reliance on the powers and resources of state agencies. To improve the enforcement record, the federal government should provide sufficient resources to the states for enforcement. States also should continue aggressive enforcement of state and, where delegated, federal fair housing laws. In addition, states should encourage affirmative efforts by local governments to eliminate exclusionary zoning and other local restrictions that pose barriers to freedom of choice in housing.

Several specific measures can help to eliminate housing discrimination. The Home Mortgage Disclosure Act is an important instrument for overcoming mortgage redlining, one of the indirect obstacles to equal opportunity in housing. The program should be carried out as diligently as in its initial years.

The Housing and Community Development Act of 1987 also includes important provisions for funding of private fair housing groups to carry out testing and enforcement activities. It is important for Congress to authorize funding and to seek implementation of this program.

State housing finance programs also can be used to expand housing opportunities as a positive complement to enforcement of antidiscrimination laws. States, too, should assume a leadership role in working with the full range of commercial sectors involved in housing, e.g., builders, owners of rent-

al housing, realtors, lending institutions, to gain active private sector involvement in eliminating discriminatory practices, assuring equal housing opportunities, and affirmatively marketing housing to minorities and persons with special needs.

4.2.8 **National Housing Partnership.** While the new national housing policy should reflect the principal role of the federal government to ensure adequate shelter for low-income individuals, states ought to be direct participants in programs designed to promote affordable housing.

In the last ten years, states have significantly increased their participation in housing assistance programs. The ability of states to utilize a broad tax base and access the capital markets; to generate widespread corporate and industry participation in and support for public initiatives; and to blend the housing needs of economically disadvantaged central cities, development-stressed metropolitan areas, and more sparsely populated but economically distressed rural areas, underscores their place as major participants in the affordable housing arena.

Regarding affordable housing, states should be responsible for developing a state plan identifying populations in need, including the homeless, in cooperation with local governments to ensure comprehensive and consistent services throughout the state; allocating federal housing funds for the provision and promotion of affordable housing; promoting the development of projects making the most efficient use of available federal housing incentives; and fostering an effective partnership with local governments to best utilize the limited public and private funds available for affordable housing. While the federal government provides for the preservation of existing low-income units and rental subsidies to low-income tenants, the federal government should create a "housing opportunity program" (HOP) similar to the proposal of the National Housing Task Force. The Governors urge that it be funded in the amount of $5 billion by combining money from the consolidation of some existing housing programs ($2.5 billion) and the allocation of new budget authority ($2.5 billion). In 1988 nearly $4 billion was appropriated for the following categorical housing programs: Section 202, Section 312, the rental rehabilitation grants, Section 8 moderate rehabilitation, a portion of the urban development action grant program, Section 502, Section 504, and Section 515. A number of these programs could be efficiently consolidated to make money available for the HOP. Individual states would have the flexibility through the HOP to continue any effective programs affected by this consolidation. The allocation of new budget authority for the HOP should occur when federal budget conditions permit the investment of additional resources. The Governors recommend that states and localities be required to obtain match for the HOP on a sliding scale that might be based on per capita income, available resources, and demonstrated housing need. Money expended under the HOP would be used to address populations in need as identified in a state plan.

4.3 **Addressing Problems of Supply and Cost**

4.3.1 **Introduction.** The supply of affordable housing in most markets is not adequate to meet the demand; the shortage is particularly acute in the rental housing sector and in regions experiencing rapid population growth. Housing costs have risen faster than incomes, making decent housing unaffordable for many people and raising the costs of subsidy programs. The cost of housing is a particular problem for low- and moderate-income families, and barriers to choice posed by racial discrimination and other discrimination have not been fully overcome.

In the 1980s, about 42 million Americans will reach the prime home-buying age of thirty, compared to about 30 million in the 1970s. The trend toward more single-person households not only increases aggregate demand for housing but also results in changes in the type of housing units in demand. Growth in demand also results from homeownership being an excellent personal investment in inflationary times.

The housing market in many areas of the country has been unable to satisfy this growth in demand. The shortfall in supply is attributable to two major factors: the shortage of capital for new residential construction and the rapid escalation of housing costs.

Housing construction is one of the most cyclically sensitive sectors of the economy. Minor fluctuations in interest rates can produce major changes in the mortgage market and production levels for new housing. Although the recent growth of long-term certificates of deposit and expansion of the secondary mortgage market have mitigated this problem somewhat, residential construction still remains highly sensitive to cyclical changes in the economy.

Sharp increases in the costs of housing over the past decade have placed the dream of owning a single-family home beyond the reach of a growing proportion of households. The market has not provided new alternative home ownership opportunities, e.g., new condominiums, in sufficient quantities to satisfy the demand, nor has construction of new multifamily rental housing been sufficient to meet rental demand. Increases in construction and financing costs have been a significant constraining factor in both the single-family and multifamily housing markets. In many areas, operating costs for multifamily rental housing have increased more rapidly than rents, further eroding investment and contributing to severe shortages of rental housing.

The present housing crunch can be attributed in part to the cumulative effects of government monetary and fiscal policies, environmental and other restrictions on residential construction, rent control and condominium conversion, and program investment decisions. Because government policies exert a major influence on the housing market, solutions to the related problems of supply and cost depend, in part, on governmental action to remove unnecessary barriers to a smoothly functioning housing market. Direct government involvement should be focused on those areas where the private sector is unable or unwilling to address the needs of particular markets or population groups. In addition, governmental agencies continue to have an important role in facilitating an efficient system of mortgage financing.

4.3.2 **Federal Actions Suggested.** A more stable flow of capital into residential construction would result in a more smoothly functioning housing market and a lower rate of growth in housing costs. A thorough reevaluation of the regulation of thrift institutions and the effects on housing finance of conventional monetary policy should be undertaken to identify alternative approaches that can "smooth out the bumps" in the availability of funds for residential construction. Particular attention should be given to measures that would enable thrift institutions to compete more effectively for funds during periods of high short-term interest rates.

The federal government should, consistent with adequate investor protection, encourage the activities of both federal and private issuers and guarantors of mortgage-backed securities in order to maintain an adequate flow of capital through the secondary mortgage market. Federal policy should continue to recognize the central role played by public or quasi-public institutions involved in the secondary mortgage market. The ceiling on the size of single-family loans purchased by FNMA and FHLMC should be adjusted for high cost areas to permit homebuyers and financial institutions in all sections of the country to benefit equally from the activities of these federally sponsored corporations.

Home ownership and rental subsidy programs should be targeted to low- and moderate-income households but also should encourage a mix of family income levels in assisted housing. These programs should be reviewed regularly to ensure that interest rates and mortgage limits are set at realistic levels.

To reduce the extreme effects of the money market cycle on mortgage availability, private lenders should be encouraged to offer more flexible mortgages, e.g., variable rate, graduated payment, without precluding consumer choice of conventional financing. Federal regulatory agencies should monitor the growth of these new mortgage instruments and, where necessary, should consider limitations to protect lenders and borrowers alike against unacceptably high economic risks.

Programs utilizing a shallow subsidy approach should be retained to increase the supply of rental housing, provided such a program does not reduce commitments to low-income rental housing needs and itself contains a low- or moderate-income component. Such a program should permit states the flexibility needed to assure production of rental housing in areas where the problems are most severe. Determination of the mix between new and existing housing units for purposes of low-income rental subsidy programs should be based on community needs, as reflected in locally developed housing assistance plans.

The Mortgage Revenue Bond Program is an important vehicle for the financing of home ownership in light of continued high interest rates and housing costs that place home ownership out of the reach of many would-be first time homebuyers. The Mortgage Subsidy Bond Tax Act of 1980, the Deficit Reduction Act of 1984, and the Tax Reform Act of 1986 placed significant restrictions on the program, and there is no need to further restrict the program. Congress must eliminate the provision that "sunsets" the Mortgage Revenue Bond Program on December 31, 1988. The Mortgage Credit Certificate Program, newly authorized by the 1984 act, should remain an optional alternative to, not a mandatory replacement for, the states' use of mortgage revenue bonds. Consideration should be given

to utilizing existing public and private programs to operate in tandem with mortgage revenue bonds to reduce home ownership costs for target populations.

In many jurisdictions, the construction of rental housing other than luxury dwellings is economically infeasible without tax-exempt financing. Therefore, Congress should continue to permit state housing finance agencies to issue tax-exempt multifamily housing industrial development bonds. To further reduce finance costs and thus promote affordability for low- and moderate-income tenants, federal guarantees should continue to be available in tandem with tax-exempt bonds for housing.

Federal housing policies should recognize the special needs of rural areas, and the federal commitment to rural housing should remain intact. The Farmers Home Administration should encourage joint federal/state initiatives to develop affordable rural housing.

An explicit federal strategy to avert housing abandonment should be developed. The most effective strategies are likely to be those that combine and target the resources of both federal and state government. Existing federal programs therefore should provide states with flexibility to target them to buildings threatened with abandonment or acquired by government as a result of foreclosure. Expansion of the urban homesteading program and provision to set aside Section 8 units for this purpose should be given priority consideration in developing an overall approach to the problem of abandonment.

Private pension funds, which are federally regulated pursuant to the Employee Retirement Income Security Act, hold approximately $700 billion in assets. Historically, only a small percentage of those assets have been invested in housing. The federal government should carefully consider whether there are any unnecessary regulatory barriers to pension fund investments in residential mortgages.

Manufactured (mobile) homes are an important source of affordable housing to a growing segment of our population. The states' regulatory authority over the design and construction of such homes was federally preempted in 1974, yet the states have retained a vital interest and cooperative role in the federal regulation of these homes by the U.S. Department of Housing and Urban Development. A recently completed state sponsored study reviewed the strengths and weaknesses of the federal manufactured housing construction and safety standards program and found the program wanting in a number of major aspects. The U.S. Congress and HUD should work cooperatively with the states and industry to improve the quality of manufactured housing. In such an effort, HUD should continue to work with the states to reaffirm and strengthen the vital regulatory and administrative roles which the states continue to provide under various aspects of the federal manufactured housing construction and safety standards program.

4.3.3 **State Actions Suggested.** Forty-nine states have established housing finance agencies that use tax-exempt revenue bonds to meet the home ownership and rental housing needs of low- and moderate-income residents. States are also responsible for overseeing the issuance of mortgage revenue bonds by local units of government and for ensuring that these programs conform with legitimate public purposes. States should continue to assure that this indirect federal subsidy is used in a responsible and effective manner to fill gaps in the private mortgage market. States also should encourage their housing finance agencies to explore and evaluate the uses of the newly authorized Mortgage Credit Certificate Program and the Low-income Rental Housing Tax Credit.

While federal programs play a significant role in stimulating new condominium construction, regulation of conversion and protection of tenants' interests can be addressed most effectively in response to particular market characteristics at the state and local level. The loss of rental units and displacement of tenants due to condominium conversions are phenomena best regulated at the state level.

As state and local public employee pension funds grow in importance in national capital markets, they are increasingly able to play an important role in housing finance. States should consider using their pension funds to provide mortgages to public employees, shared-equity programs to lower initial down payments in return for a share of eventual capital gains, and direct provision of loans for single-family housing.

Due to the growing demand for and critical shortage of decent affordable housing, states should develop strategies to address these problems through joint public/private cooperation. States should work with lending institutions, real estate developers, builders, community groups, and local governments to encourage production of new housing and reclamation of abandoned buildings for rehabilitation and vacant lots for new residential construction. Such efforts should include assistance to

households whose current housing needs are not currently being met, whether these be low-income individuals looking for temporary shelter or first time home buyers unable to afford a down payment. States, in conjunction with appropriate representatives of the private sector, also should promote research and development initiatives that explore new methods and approaches for dealing with housing needs and shortages.

In recent years, the decline in Americans' ability to purchase homes and find affordable rents has become a national crisis. States can play a significant role in reducing housing costs. States should examine, where appropriate, their land development and housing policies and regulations to consider amending those that unnecessarily add to the costs of housing production. States also should provide information to their local governments about ways to reduce housing production costs and make housing more affordable.

In recent years numerous federal, state, and private sector studies have demonstrated the cost savings that are possible to the homebuyer through reforms and streamlining of the nation's building regulatory process. States, working together with their units of local government, should seek to reduce the building regulatory portion of the cost of new housing by adopting and maintaining uniform modern model building codes and supporting the introduction of new building technologies. State and local government further should implement those codes through streamlined administration techniques and provide positive support for the adequate education and training of state and local code enforcement personnel.

Industrialized and modular buildings, which are built in a factory and sited on permanent foundations, are a growing segment of the nation's affordable housing and commercial building stock. These structures are frequently being manufactured in one state and sited in another. The regulation of such structures varies from state to state and locality to locality and imposes confusing and costly burdens on state and local building officials, the modular building industry, and the consumer. Currently, manufacturing facilities must undergo numerous inspections and build to the codes of several states while state governments must inspect plants in more than one state. This costly and duplicative regulation ultimately costs the consumer more and restricts market access and use of new technologies. To supply the growing demand for safe, decent, and affordable housing and commercial buildings, state governments should work with the industrialized/modular buildings industry to develop and adopt uniform administrative regulatory procedures and implement interstate reciprocity agreements for the design and construction of modular buildings.

States should actively monitor the progress of Farmers Home Administration (FmHA) state offices in obligating their allocated funds for rural housing. Where appropriate, states should work with FmHA officials to remove obstacles to participation in FmHA housing programs.

4.4 Meeting Low-Income Housing Needs

4.4.1 Introduction. While national housing policies should be designed to ensure an adequate supply of housing to satisfy the demands of the general population, particular attention must be given to meeting the needs of low-income households. Past federal subsidy programs for new construction and substantial rehabilitation of rental housing have been characterized by high unit costs. Although rent subsidies for existing housing units may appear to lower unit costs and stretch the housing assistance dollar further, this approach is not responsive to low-income needs in areas where the supply of existing housing is tight.

The range of federal subsidy programs directed to meeting low-income housing needs should include programs that effectively leverage federal funds to produce new units as well as programs that provide rental assistance for existing units. Priority also should be given to programs that protect the physical and fiscal soundness of the nation's existing inventory of assisted low-income housing. Government at both the federal and state levels should strive to maintain sufficient levels of activity, improve program flexibility and adaptability, and ensure effective administration of programs in response to local needs and conditions.

Greater recognition should be given to the fact that programs that produce new or rehabilitated housing units provide more than shelter. They also play an important role in stabilizing families and revitalizing distressed neighborhoods. Thus, low-income housing programs should be viewed as an important component of community and economic development efforts.

4.4.2 **Federal Actions Suggested.** Although past and present federal programs have improved housing conditions and housing choices for millions of Americans, there remains a significant shortfall in the amount of decent and adequate housing at rents that low-income households can afford. For this reason, low-income housing programs should be maintained at adequate levels.

To the extent that certain construction programs may be considered too costly, greater reliance may be warranted on rehabilitation of available buildings to increase the supply of decent housing for low-income tenants. Such programs should be implemented in a manner that assures that the current tenants of renovated units are not involuntarily displaced.

The federal government should accord high priority to maintaining the physical and financial soundness of existing low-income, federally assisted housing and protect substantial governmental investments in these properties while assuring their continued viability and affordability for low-income tenants.

Increased attention is being given to the idea of "privatizing" public housing, i.e., selling public housing units to the tenants. Demonstration projects to explore tenant purchases of public housing are more appropriate at this stage than wide-scale national programs. Federal subsidies should remain in place where necessary to help low-income owners maintain their units after they purchase them.

To ensure that federal low-income housing resources are directed to projects where the need is most acute and the impact greatest, program dollars should be allocated in accordance with local, regional, and state plans and priorities.

The Farmers Home Administration has negotiated formal cooperative agreements with a number of states to assure that federal funding decisions are consistent with overall state priorities. The U.S. Department of Housing and Urban Development should make the necessary program adjustments to permit and encourage similar agreements with states.

Total reliance on a rental subsidy approach should be discouraged. However, Congress should continue to fund both Section 8 housing certificates and housing vouchers while carefully monitoring these programs' impact and effectiveness in meeting low-income housing needs. Fair market rent determinations should be pegged closely to local market conditions and should be adjusted frequently as market conditions change.

Housing program regulations should be as simple and straightforward as possible and should be consistent among all agencies that finance housing so red tape costs are minimized and private sector participation is not discouraged.

Federal block grants to states, whether for the construction, subsidization, rehabilitation, or operation of housing units, may be an appropriate mechanism for federal assistance. Any block grant proposal should be funded at substantially the same level as the federal programs to be consolidated. The block grants should be characterized by flexibility, adequate administrative funds, targeting to low- and moderate-income individuals, and minimal mandates. A block grant proposal should permit each state to choose to administer the program or leave the administration with the federal government.

4.4.3 **State Actions Suggested.** States should continue the roles they have played successfully -- developing appropriate housing strategies, filling in gaps between federal programs, complementing and adapting federal programs to work in local settings, and providing technical assistance to local agencies and private developers who utilize federal and state programs.

Because state housing finance agencies (HFAs) have been particularly successful in forging linkages with federal programs, states should continue to strengthen their HFAs and target their resources to complement federal and private sector efforts to meet low income housing needs.

Many states have found it beneficial to act as housing authorities for smaller communities that otherwise lack the resources and expertise to participate in the Section 8 and public housing programs. This approach warrants consideration by other states.

States should encourage the use of available housing programs as a component of neighborhood revitalization efforts, in conjunction with community development block grants and similar programs. State technical assistance can help localities effectively combine federal housing and community development funds for maximum benefit.

4.5 Ensuring Fair Housing Policies and Practices

4.5.1 **Introduction.** The rights of free choice in the housing market are protected by federal and state laws. Enforcement of federal fair housing laws is delegated to states that have comparable legislation. This augments the enforcement provisions of the federal law with the generally greater authorities the states possess. Effective enforcement of federal and state fair housing laws is an important step toward ensuring equal opportunities and preventing overt discrimination in housing.

However, there are some subtle barriers to freedom of housing choice that can be more difficult to identify and overcome, e.g., mortgage or insurance redlining, exclusionary zoning practices. In addition, the market often does not meet the needs of those with special housing requirements and consequently deprives them of the range of choice available to others. While federal and state regulations, enforcement mechanisms, and disclosure requirements are necessary tools to eliminate unfair housing practices, only through the active involvement and commitment of the private sector can the promise of equal opportunities in housing be fulfilled.

4.5.2 **Federal Actions Suggested.** Enforcement of the federal (and state) fair housing statutes is uneven, in part because of the federal government's reliance on the powers and resources of state agencies. To improve the enforcement record, the federal government should provide sufficient resources to the states for enforcement.

The Home Mortgage Disclosure Act is an important instrument for overcoming mortgage redlining, one of the indirect obstacles to equal opportunity in housing. The program should be made permanent and its implementation should continue to be carried out as diligently as in its initial years.

In recent years, a number of federal initiatives have been undertaken to encourage expansion of housing opportunities for the disadvantaged through demonstration programs, incentive mechanisms, and the establishment of priorities within existing federal programs. Efforts to develop "partnership" agreements with state and local governments represent a similar positive approach to fair housing. The Governors endorse the provision of positive incentives for achievement of fair housing through the development of a cooperative partnership approach to shared federal/state objectives.

4.5.3 **State Actions Suggested.** States should continue aggressive enforcement of state and, where delegated, federal fair housing laws. In addition, states should encourage affirmative efforts by local governments to eliminate exclusionary zoning and other local restrictions that pose barriers to freedom of choice in housing.

State housing finance programs can be used to expand housing opportunities as a positive complement to enforcement of antidiscrimination laws. States also should assume a leadership role in working with the full range of commercial sectors involved in housing, e.g., builders, owners of rental housing, realtors, lending institutions, to gain active private sector involvement to eliminate discriminatory practices and assure equal housing opportunities.

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NEWS

NATIONAL ASSOCIATION of COUNTIES

For Immediate Release
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County officials committed to refining affordable housing act

Supervisor Ann Klinger of Merced County, Calif., told the Senate Housing and Urban Affairs Subcommittee today that county officials are committed to refining the National Affordable Housing Act and believe that to be most effective the bulk of federal resources for housing should be allocated to local governments.

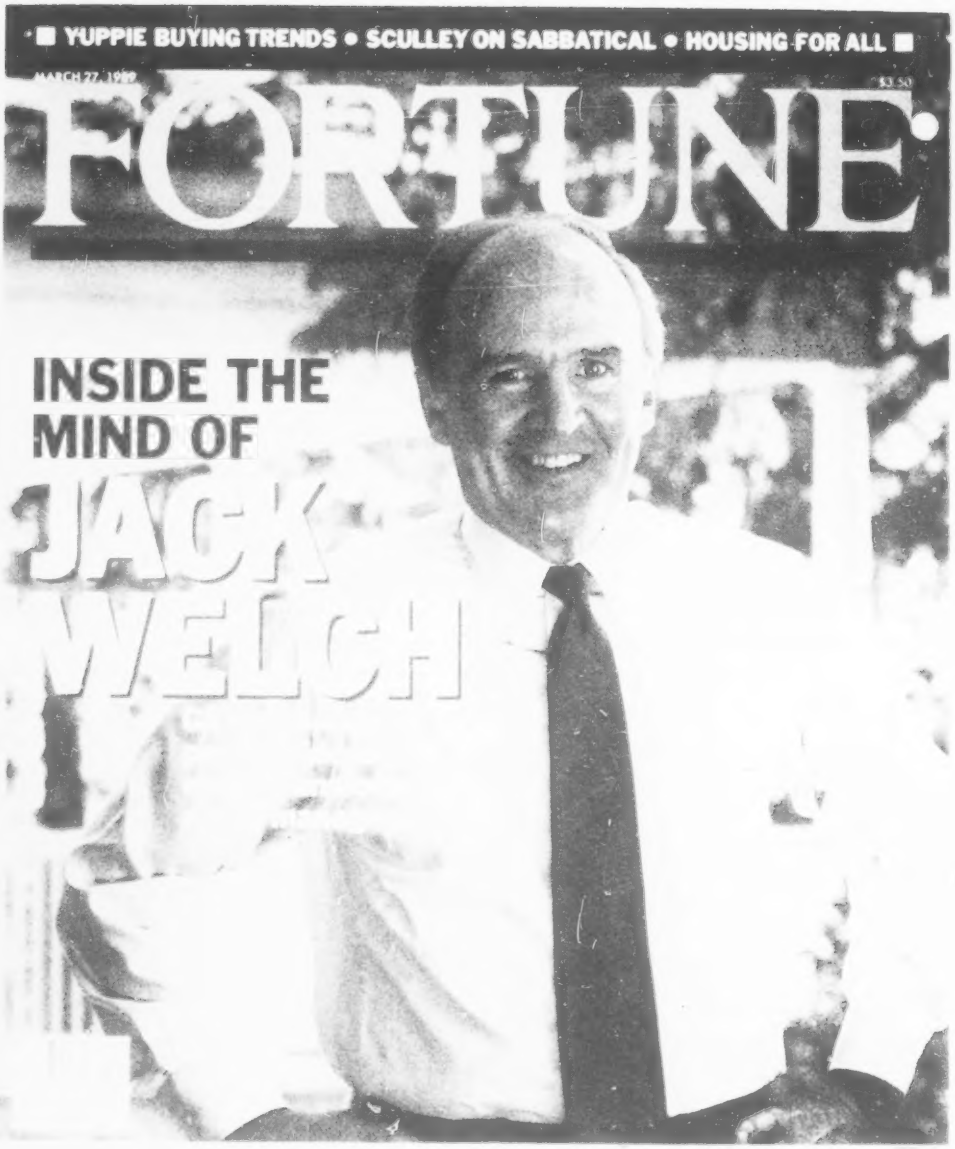
"We know local housing markets," Klinger said. "County officials interact with the real estate industry and nonprofit developers regularly, if not daily. County officials have the expertise and political will to produce housing."

Klinger, First Vice President of the National Association of Counties (NACo), said directing most of the Housing Opportunities Partnership (HOP) program funds to local governments "would avoid layers of bureaucracy which entail administrative costs and impede local flexibility." The NACo Community and Economic Development Steering Committee recommends that 70 percent of HOP funds be allocated to urban counties and metropolitan cities and the balance to the states, she said.

More

The Merced County Supervisor said Senate Bill 656 provides an effective framework for the federal government to reemerge as a partner in producing affordable housing. "It formalizes a major federal funding role in housing while acknowledging the preeminent role of local governments and agencies in designing and producing affordable housing for low and moderate income people," she said.

On the matching requirement of the legislation, Klinger said that NACo supports a state and local match of federal resources. On the provision concerning nonprofit developers, she asserted that although nonprofits certainly should be incorporated into a jurisdictions' housing strategy, there is some concern about the required 10 percent set aside for these groups. Klinger said that instead of having the funds returned to the Department of Housing and Urban Development if they are not used during the 18-month holding period, she would like to see a community free to use the funds to meet their identified housing needs.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CITIES

HOW BUSINESS BOSSES SAVED A SICK CITY

Could this happen in your town? With local government in shambles and companies fleeing, CEOs took charge of Cleveland's fate. The turnaround is impressive. ■ *by Myron Magnet*

ONE LESSON Americans learned in the Eighties was that they had to take responsibility for their own fates. For companies, in the age of raiders and Darwinian global competition, this was luminously so—and hence the restructuring wave that defines this business era. Individuals, their jobs and expectations rattled by the corporate convulsions, discovered that they and not some institution must shape their careers, a perception that bred legions of new small businesses. Cities, especially old industrial centers, made the same discovery. With their economy, politics, and social fabric frayed by vast forces seeming to make them as obsolete as Pompeii or Atlantis, they were said to be turning ungovernable, unlivable, and bankrupt. But instead of subsiding gracefully into the dustbin of history, some cities stood and fought. And some—Baltimore, Pittsburgh, and Lowell, Massachusetts, for instance—are winning.

No city has battled more cannily than Cleveland. A microcosm—almost a caricature—of all the recent ills of urban industrial America, the nation's 12th-largest metropolitan area had much to overcome. Two decades ago it seemed a place decomposing into spontaneous combustion. In 1969, for instance, its oil-smeared Cuyahoga River—the river—burst into sooty flames, a presage of the inner decay of Cleveland's crucial heavy industries. In 1966 the Hough ghetto, and two years later the Glenville neighborhood, flared into wild rioting that left scores of stores charred and gutted. Today weed-grown lots mark where burned buildings were bulldozed.

REPORTER ASSOCIATE *Constance Gustke*

The town's political framework threatened to go up in smoke too, an immolation that had more the air of farce than of tragedy. When Cleveland needed strong leaders to navigate these urban ills, its mayors seemed to have stepped out of a Three Stooges movie. In 1972, Mayor Ralph Perk —whose wife had just declined a chance to meet with President Nixon because it interfered with her bowling night—made Cleveland a national laughingstock. While wielding an acetylene torch to cut the metal ribbon at a bridge opening, he set his hair alight.

His successor, the boy mayor Dennis Kucinich, wrote the City Hall farce's last act with a wild-eyed, publicity-hungry, populist style of government that ended by bringing Cleveland into default, the only major U.S. city to have suffered that fate since the Depression. Elected as a 31-year-old to a single two-year term in 1977 and nearly recalled nine months later, he treated business as the archenemy of "the people." His business-bashing helped drive Diamond Shamrock out of town in horrified disgust.

With the city till empty and municipal services a shambles, Clevelanders decided to take their civic fate in hand. Says Richard Pogue, managing partner of Cleveland-based Jones Day Reavis & Pogue, the nation's second-largest law firm: "In a sense, Kucinich was the best thing that ever happened because he became a unifying element. People looked at him and said, 'Enough is enough here. Let's get together and change things.'" In response, Clevelanders achieved a unity almost startling in this every-man-for-himself epoch.

The Terminal Tower dominates the Cleveland skyline, which . . .

E. Mandell de Windt, the now retired CEO of Eaton Corp. and unofficial dean of Cleveland businessmen, organized the troops and devised a strategy, setting in motion a benign conspiracy of executives and entrepreneurs that still operates. The impressive feat of organizing that cabal and persuading Cleveland's most senior businessmen to take charge of the grittiest aspects of civic life was the real key to the town's turnaround. Cleveland bosses are arguably more public spirited than most, but they had hitherto focused that spirit on their especially successful United Way or their superb art museum or the world-famous Cleveland Orchestra, not on bread-and-butter civic matters. By the start of the Eighties, though, top executives realized

they had to get their hands dirty if they wanted to keep viable the Cleveland life they liked so much—the Cleveland of excellent cultural institutions and big-league athletic teams, the Cleveland ringed by enviably comfortable, old-fashioned, family-oriented suburbs, where $300,000 buys you $1 million worth of house by New York City or Boston suburban standards.

The civic rescue operation was more than a personal extracurricular activity for these executives. Says Del de Windt: "It was an extension of my role as a CEO of a major corporation to recognize that we had to do something about the environment in which we lived." Tackling civic problems in concert rather than singly gave top bosses the necessary confidence to invest their time and their corporations' money in Cleveland—when they could have followed Diamond Shamrock out of town. They knew they wouldn't be left alone holding the bag, like the last person in a chain letter.

THE BUSINESS CABAL'S first campaign was political. Shortly after Cleveland defaulted in 1978, de Windt sent an emissary to implore Republican Lieutenant Governor George Voinovich, a former Cuyahoga County commissioner, to come back and run for mayor. Financed largely by the corporate leaders, he beat Kucinich handily.

"All they wanted was somebody to bring some sameness and just establish a C + city administration, so the city would function," says Voinovich. But they got much more. They got a mayor with a gift for nurturing all the incipient impulses toward unity and cooperation that the town's revulsion for Kucinich had engendered. According to lawyer Pogue, "Voinovich always says, 'I don't like to make war. I like to make love.'"

In agreeing to run, Voinovich had extracted from the executive cabal a promise that cemented its cooperation with the city. Executives agreed to scrutinize the operations of city government with the hardnosed skepticism of a bank workout squad, looking for ways to impose corporate efficiency on city hall. Almost 90 executives took up the task. From over 650 of their proposals—ranging from a new financial management system to contracting out car and truck maintenance—Voinovich adopted about 500, saving Cleveland $200 million in his 9½-year tenure. Besides modernizing the city administration, this exercise gave business

. . . will be transformed by $2.3 billion of new construction during the next four years.

PHOTOGRAPHS BY PETER SIBBALD

Republican Mayor George Voinovich fostered a healthy climate for Cleveland business...

A

...helped by Democratic council president George Forbes.

Remaking Cleveland from the ground up: developers Albert Ratner . . .

so manufacturing technology needed modernization. Cleveland Tomorrow mobilized the resources of local colleges and universities, helping Cleveland State University, for example, set up a research center that solves quality improvement and industrial engineering problems for area companies. A program at Cuyahoga Community College provides customized training for companies. For example, it taught a small, growing defense subcontractor how to choose a CAD/CAM system and then taught the company's employees how to use it.

TO FOSTER new businesses, Cleveland Tomorrow in 1984 established a venture capital fund of $30 million raised from Cleveland Tomorrow companies and the Ohio state pension system. Investing mainly in Cleveland-area startups, most based on innovations in old industries, the fund has done well enough so that it recently had no trouble raising an additional $75 million.

In Cleveland's spirit of cooperation, which makes the whole greater than the sum of the parts, small businesses have flourished by pooling know-how in the nation's largest self-help organization for small enterprises. Thousands of these firms trade expertise in how to market or computerize or do cost accounting, and their bosses regularly exchange advice on specific problems.

Without exotic cultivation, Cleveland's big law and accounting firms have prospered, with demand for their services largely unruffled by the vicissitudes of their big-corporation clients. The health services industry has expanded to become, unexpectedly, Rust Belt Cleveland's No. 1 employer. The Cleveland Clinic, which brings $300 million from out of town into the city each year, has become a center of civic improvement, joining with other institutions to restore economic vitality to their sadly decayed neighborhood.

All these happenings add up to a sea change, but it is subtle and hard to discern if you don't look attentively, says developer Albert Ratner, president of Forest City Enterprises. "The real thing that's changed is people's heads." But Ratner and another Cleveland-based developer—Cleveland Indians co-owner Richard Jacobs, chief of Jacobs Visconsi & Jacobs—are close enough to see how profoundly the city's civic culture and economic climate have improved. These developers are just starting to give outward form to that change with big projects that in three or four years will transform downtown.

Like crocuses forlornly peeping through the snow, a few brave projects, starting with the new BP America headquarters finished in 1984, have shown that Cleveland isn't frozen lifeless. In 1986, Dick Jacobs's son Jeffrey built a bar, restaurant, and boardwalk on the "Flats" by the newly cleaned-up Cuyahoga River, setting off a wave of recreational development that in summer produces traffic jams and boats rafted up three deep by waterfront restaurants. Neil and Myron Vitty have refurbished parts of the handsome but derelict warehouse district nearby for now bustling offices and apartments. The last drop of paint dried in April on the spectacular restoration of three adjacent splendid 1920s theaters, and now concerts, plays, and ballet draw big crowds downtown.

. . . and Richard Jacobs, Indians co-owner

The new downtown is springing up as rapidly, extensively, and glitteringly as if by Prospero's magical conjuration. A year and a half ago Dick Jacobs and his brother opened a suave, glass-vaulted galleria, where two levels of such tony shops as Ann Taylor and Williams-Sonoma have lured suburban matrons back into the city. This month the Jacobs brothers broke ground in the center of downtown on the first of two striking towers, designed by world-class architects, to house Cleveland's two biggest banks and two new hotels, a Hyatt Regency and a Marriott. Representing a total investment of some $750 million, they'll be finished in 1992 and 1993, and at 60 stories, the taller will be Ohio's tallest building.

Nearby, Albert Ratner is completing a $15 million renovation of Cleveland's landmark 1920s Terminal Tower office building. He is also putting up two smaller office complexes, one containing a Ritz-Carlton hotel, and constructing another office building in the shell of the old Post Office. These will all be joined to the Terminal Tower by a vast, three-level, vaulted mall containing restaurants, movie theaters, a new commuter rail station, and 120 shops. A walk through the site suggests that the $400 million project—to be finished in the spring of next year and partly built on the foundations of a similarly ambitious project aborted by the Depression—has the makings of a truly sophisticated urban forum.

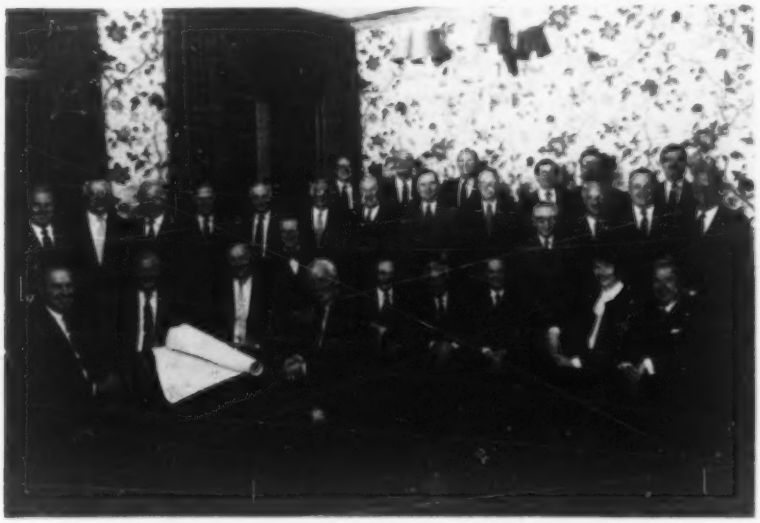
All this building will take Cleveland's comeback a step further. Says managing director James Bennett of McKinsey's Cleveland office: "You need big symbols of physical progress. They are momentum-building and pride-building. You can't move the city without physical splashes."

The city is providing plenty of encouragement. It has helped builders get hefty federal grants and produced a master plan to guide development. It has also enlarged the Cleveland convention hall and offered a 20-year full tax abatement to encourage new hotel construction, hoping to turn Cleveland into a regional convention center. Attracting more revivifying downtown

activity is only part of the benefit a convention industry would provide. Says council president Forbes: "It means young people can be hotel managers and desk clerks and cooks and waiters. They won't be making $20 an hour, but they damn sure can make $10." A city law sponsored by Forbes ensures that one-third of all jobs created with the help of a tax abatement or an urban development grant must go to minorities.

For Clevelanders aren't kidding about wanting to spread the benefits of recovery through the whole community. The Cleveland Tomorrow companies have provided $2.5 million, for example, to help an innovative organization buy and refurbish houses to sell to poor people on a lease-purchase plan. The corporate community and local charitable foundations are putting up $16 million to motivate disaffected public school students by offering scholarship money for good grades. To keep kids in school, companies offer hiring preference to graduates of Cleveland high schools. Says BP America chief James Ross: "You've got to get to the social fabric of the city, or you have the politics of envy ruling. I don't believe that a BP can exist as a wealthy company in a society where you have such a substantial underclass that it will pull the whole structure down with it."

Listening to Clevelanders' earnest talk about how they are turning their town around, and looking at what they've accomplished, is an impressive, oddly moving experience—and not just because it's exhilarating to see people take their fate in their hands instead of complaining about irresistible, impersonal forces. Beyond that, you can't help thinking that *this* is what community is all about. Doubtless it sounds comic to speak of Clevelanders in the same breath as Athenians, but isn't this at least a little like what the Greeks meant by the civic ideal—the public life in which people achieve their fullest humanity?

A BENIGN CONSPIRACY OF TOP EXECUTIVES

Members of Cleveland Tomorrow at a recent meeting: (1) Paul Schloemer of Parker Hannifin (2) Richard Pogue, Jones Day Reavis & Pogue (3) Governor Richard Celeste (4) Joseph Milgram, Arxcel (5) James Biggar, Nestle Enterprises (6) Albert Ratner, Forest City Enterprises (7) Morton Mandel, Premier Industrial (8) John Opie, General Electric (9) Ralph Schey, Scott Fetzer (10) Karen Horn, Bank One (11) William Williams, Huntington National Bank (12) Dr. William Kiser, Cleveland Clinic (13) Robert Rewey, Ford Motor (14) Seth Harris, Harris Wholesale Drug (15) Thomas Vail, *Plain Dealer* (16) Robert Neary, Ernst & Whinney (17) John Cunin, Bearings (18) Thomas Quigley, Squire Sanders & Dempsey (19) James Reid Jr., Standard Products (20) M. Thomas Moore, Cleveland Cliffs (21) Richard Bogomolny, First National Supermarkets (22) Renold Thompson, Ogilvy & Norton (23) David Hoag, LTV (24) Joseph Gorman, TRW (25) James Stover, Eaton (26) Robert Gillespie, Society Corp. Cleveland Tomorrow staff (27) Richard Shatten, executive director (28) Joseph Roman (29) William Grimberg.